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Implementation of decisions contained in the 2005 World Summit Outcome for action by the Secretary-General

Comprehensive review of governance and oversight within the United Nations and its funds, programmes and specialized agencies

Report of the Secretary-General

Addendum

Report of the independent Steering Committee

Volume IV
Oversight: current United Nations practices, gap analysis and recommendations

Volume V
Review of the Office of Internal Oversight Services

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United Nations

Comprehensive Review of Governance and Oversight within the United Nations, Funds, Programmes and Specialized Agencies

Volume IV
Oversight – Current UN Practices, Gap Analysis, and Recommendations

June 2006

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Oversight – Current UN Practices, Gap Analysis and Recommendations

4.1 Introduction

1. Volume IV of the Comprehensive Review of Governance and Oversight within the United Nations, Funds, Programmes and Specialized Agencies contains the following:

   - ***Summary Findings of UN Oversight Gap Analysis (Phase 1)***. The gap analysis compares the current UN oversight practices with the Good Governance and Oversight Principles presented in Volume II.

   - ***Major Oversight Recommendations from Sample of UN Entities (Phase 2)***. For each of the five UN entities included in Phase 2, an analysis of each Phase 1 gap was prepared. This analysis included a review of each entity to determine if each entity was addressing the gaps. Recommendations to address each oversight gap along with related costs and benefits were identified.

     As indicated in Volume I, governance and oversight principles are inter-dependent and it is the collective application of these principles that leads to more effective governance and oversight. The individual recommendations herein are a part of the cohesive set of recommendations, which include as its base the recommended UN Code of Goverance derived from the Good Governance and Oversight Principles. Adopting the cohesive set of recommendations will help ensure that the UN adopts goverance and oversight best practices. Accordingly, the set of recommendations should be adopted in its entirety.

   - ***Analyses of the UN current oversight practices and gaps***, contained in the Appendices of this volume, from Phase 1 plus the specific gaps and recommendations for each of the five sample UN entities for Phase 2. The five entities are: UN Secretariat, UNDP, UNICEF, UNHCR and ICAO.

2. The findings, recommendations and analyses in this volume cover the ***Oversight Principle only***, which is number 6: Audit, Risk Management and Compliance. The Governance Principles, i.e. Principles 1 to 5, are covered in similar format in Volume III.

4.2 Summary Findings of UN Gap Analysis (Phase 1)

4.2.1 OVERSIGHT – AUDIT, RISK MANAGEMENT & COMPLIANCE

3. Introductory note: please note that this section deals with findings relating to the gap analysis of the UN's current oversight practices with the Good Governance and Oversight Principles. It is a

set of observations and does not necessarily imply any recommendation. Specific recommendations are in the subsequent section.

4. **Audit Committees either do not exist or are not yet fully effective.** Some UN entities have set up audit committees, but this practice is not yet widespread throughout the UN system. The General Assembly has decided to establish an Independent Audit Advisory Committee (IAAC) for the United Nations. For entities that have established audit committees, the effectiveness varies widely. Variations exist with regard to formal minimum qualifications of committee members and the level of required independence of the committee members from executive management. There are also differences in the level of committee authority with regard to reporting, budgeting, and the selection and dismissal of the Head of Internal Audit.

5. **Effectiveness of internal audit functions.** There are variations between UN entities in the degree of internal audit independence. In some UN entities, internal audit is not fully independent of management (the auditees) with regard to its budget, audit planning and/or reporting. In line with many best practices, these processes should take place in concurrence with an independent audit committee. Effectiveness also varies because some internal audit functions are significantly more advanced in the usage of computer-assisted and risk-based audit planning. Furthermore, lack of complete independence from management and budgetary constraints have led to some audit functions not being adequately staffed.

6. In the case of the UN's Office of Internal Oversight Services (OIOS), the recent requirement to provide reports directly to the General Assembly contributes to perceptions that the OIOS is an external audit function, rather than an internal audit function. As a result, it creates additional and inappropriate tension between the OIOS and executive management.

7. **Effectiveness of internal audit is also weakened by integration with other functions.** The internal audit function is commonly grouped with other oversight functions such as investigations, evaluation and consulting. Where this is the case, there is a significant risk of weakening the focus and effectiveness of the internal audit function. Specifically in the UN Secretariat, the integration of these four functions results in the weakening of all functions due to misunderstandings or ambiguous perceptions of the individual functions of the OIOS and how they might relate to each other. For example, the UN OIOS internal audit staff is often perceived as the fore-runner for their investigations 'colleagues'. It is noted, though, that full separation of internal audit from other oversight functions may be more difficult to achieve or be inappropriate in smaller UN entities where internal audit and other oversight functions may be independent but relatively small and still operate quite effectively.

8. **Some weaknesses in procedures for appointment of External Auditors.** In many UN entities, the process for appointment of the external auditors appears to work well and results in reasonable levels of rotation. In some UN entities, there is insufficient transparency in the procedures for selection and rotation of the external auditors. In some cases, the resulting lack of rotation may compromise or be perceived to compromise the independence of the external auditor. Furthermore, reporting to the entities by the external auditors may be insufficient with substantial formal reporting only taking place every two years on the biennial financial accounts and no formal reporting to the governing bodies in off-budget years.

9. **Absence of clear executive management responsibility for risk management and internal controls.** Effective risk management is in an early stage within the five UN entities reviewed. Additionally, existing risk management practices are not yet integrated into governance and management processes. In fact, entities generally lack a robust enterprise risk management framework that effectively identifies and manages risks on an ongoing basis. The lack of such a

framework also makes it difficult for each governing body to set the appropriate balance between risk and performance.

10. Consequently, there is no clear formalised understanding as to who within the UN is responsible for developing and maintaining internal controls. This often has the effect of reducing the acceptance and effectiveness of internal audit recommendations. Best practice is clear that internal controls are not only an executive management responsibility, but that management should also formally report to their governing body on the effectiveness of their internal controls. Presently, this is not the case throughout the UN, but has been identified as an emerging best practice within international institutions.

11. **Oversight of inter-agency programmes frequently ineffective**. While inter-agency programmes are quite common, and in some cases make up some of the largest and most complex programmes in the UN, there are no clearly established procedures for their internal audit or oversight. It is quite common that each participating entity simply reviews its own share of the programme rather than participating entities reaching agreement on an integrated and comprehensive internal audit or evaluation of the programme.

4.3 Major Recommendations from Sample of UN Entities (Phase 2)

4.3.1 United Nations

4.3.1.1 Oversight Recommendation 1
Implement a systematic enterprise risk management (ERM) framework.

12. UN entities often have high operational risks and these risks are growing due to the complexity and increased scope of the UN's mandates. Furthermore, these risks are not always apparent because the execution of the mandates involves multiple entities both internal and external to the UN. Accordingly, promoting a systematic risk-based approach to management decisions and risk mitigation is critical.

13. This report notes that UN management does not consistently take full responsibility for the implementation of internal controls, which is an enabler for enterprise risk management. Currently, it has been observed that internal and/or external audit appear to have taken on some of the responsibility for the effectiveness and integrity of internal controls, as opposed to management who should ultimately be accountable. As a result, it is much more difficult, especially for internal audit, to promote improved internal controls when management is not held accountable in a consistent manner. Despite some promising recent risk management capability development in some UN entities, the strategic alignment of risk management and responsibility for internal controls within the UN culture has yet to be achieved.

14. In the absence of a robust enterprise risk management framework, it is challenging for the ACABQ and the Fifth Committee to verify that risk management is robust, since there is no existing formal requirement for executive management to report on internal controls, risk management, and compliance with UN rules and accounting standards.

15. The governance and monitoring of risk by management must be conducted transparently and provide key inputs into the activities of oversight functions (e.g. internal controls), as well as the entities strategy and budget allocation, regardless of audit's assurance role. Such risk management focuses on internal risks and is a necessary component of enterprise risk management. Furthermore, it enhances the capability of making risk response decisions, for the

complex operational mandates of the UN, which are often developed and implemented under difficult circumstances.

16. Due to the UN's unique mandate and the complexity of its programs, which are often implemented with various external partners, executive management should adopt a systematic enterprise risk management framework. This framework would be implemented on a common set of broad-based steps, which can be tailored to meet the unique requirements of each UN entity, and thereby allow risk management capability to be instituted as a tool of management. Such a framework would involve the following key components:

- Development of an Enterprise Risk Management (ERM) framework;
- Specifications of objectives and key risks, prioritisation of risks, and identification of risk response and control mechanisms;
- Creation of a central ERM organisational structure of dedicated risk management professionals whose primary roles are to define and integrate risk into line management, drive risk capability throughout the UN system, assist in identifying and co-ordinating cross-functional risks and maintain a central risk repository;
- Incorporation of risk management into the processes and procedures through the design of risk management and measurement methodology;
- Periodic reporting on ERM to the IAAC; and
- Periodic reporting by executive management regarding the risk management framework and the process by which risks are managed, as part of their annual management statement.

4.3.1.2 Oversight ***Recommendation 2***

Assign responsibility for internal controls and reporting on internal controls effectiveness to executive management.

17. Developing and maintaining internal controls is fundamental to good governance and oversight, whereby effective internal control provides management and the governing body with reasonable assurance regarding the safeguarding of assets. Internal control is a set of processes, effected by an entity's governing body, management and staff, designed to provide practical assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with the applicable laws, and rules and regulations of the UN.

18. The definition (described above) recognizes that a system of internal control extends beyond those matters which relate directly to the functions of the accounting and financial departments and are consistent with broadly accepted definitions of internal control.

Management should report annually or biannually on internal controls as part of their regular final financial reporting to the General Assembly. This will provide for a systematic management representation that will have a positive effect on the quality of the organisation's internal controls, the effectiveness of internal and external audit activities and improve communications between management and its governing body.

4.3.1.3 Oversight recommendation 3

Implement the General Assembly's resolution to establish an Independent Audit Advisory Committee (IAAC).

19. A properly constituted audit committee is an essential component in ensuring the independence and effectiveness of internal and external audit in any large organisation. **The General Assembly in its resolution 60/248 of 1 February 2006, decided to "establish the Independent Audit Advisory Committee to assist the General Assembly in discharging its oversight responsibilities, and requests the Secretary-General to propose its terms of reference, ensure coherence with the outcome of the recurring review of oversight and report to the Assembly at the second part of its resumed sixtieth session on related resource requirements". This report fully endorses the establishment of such a committee and recommends its prompt implementation.** Draft Terms of Reference for the IAAC had been prepared by the UN Secretariat to support the General Assembly resolution, as set out in A/60/568. These have been re-examined and updated as part of this review utilising further external best practices and an updated version is attached as Appendix 3. The proposed key changes are as follows:

- The Committee shall comprise of ten members (changed from "five or seven").
- Every 3 years, one half of the Committee membership (i.e. 5 members) will retire and five new members will be appointed (the previous Terms of Reference were less specific, and simply noted "new appointments to the committee will follow the same appointment process").
- The Committee will conduct its business around a standing agenda of items and reports drawn from the updated Terms of Reference, for example an updated risk register and internal and external audit progress reports.
- Ensure financial system contingency plans are robust in the event of failure, fraud or misuse.
- Request the necessary management information and reports, which must not be unreasonably withheld, to conduct its work in a timely and efficient manner;
- Due to their independent status, IAAC members will be remunerated by the United Nations for their time in fulfilling their role on the IAAC;
- The terms of service will be term limited to maximum 6-year term (changed from "single three").
- With respect to the OIOS' role in the coordination of cross-agency activities for which the Secretary General is responsible, the Committee shall be authorised to request inputs from all the oversight activities involved within the cross-agency activities to assist in the performance of its functions.
- The Secretary General will nominate individuals to serve on the IAAC who each have expertise in at least 3 of the criteria given in the updated Terms of Reference (changed from "one or more"), including at least one member who is a qualified accountant or auditor.

20. These revised Terms of Reference should be implemented as the General Assembly's recommended IAAC and also be put forward as a model for other UN entities to adopt for their own audit committees, to improve their existing audit committees, or as a basis for establishing a new audit committee. It is recognised that, in some UN entities, judicious implementation of a fully independent and technically competent audit committee can be achieved subsequent to initial

participation (but not exclusive participation) by key members of management. There are some instances of audit committees at the UN that have been constituted in this manner.

11. An additional matter to be considered as a result of the set up of an IAAC is the impact on the current work and responsibilities for the ACABQ and the Fifth Committee with regard to audit matters so as to avoid duplication or confusion. **With respect to the UN Secretariat, this report recommends that budgets for the OIOS and the external auditors should be presented to the Fifth Committee through the IAAC, and thus relieves the ACABQ of their advisory role in this regard.**

4.3.1.4 Oversight recommendation 4
The Joint Inspection Unit (JIU) should be discontinued.

12. The Joint Inspection Unit (JIU) plays a UN system oversight role. Historically, the JIU has played a system inspection role with wide-reaching powers of investigation covering the whole UN system. However, the General Assembly has recently restricted the JIU mandate to focus on improving management and has also recently required collective approval of its work plan. Whilst the scope of the JIU mandate is extremely broad, the various governing bodies within the UN system do not exercise direct oversight over the JIU and the JIU is not directly accountable to each of them. The ability to conduct system-wide audits or inspections can be of importance but it also needs to be clearly matched to governing body responsibilities in order to be effective. The present review has identified several important challenges to the role of the JIU.

13. It has been noted that questions have been consistently raised regarding the methods, procedures, capabilities, productivity and quality of output of the JIU, along with concerns about JIU independence, technical qualifications and professional standards. While the JIU has sought to positively address these issues, the governing bodies which receive the JIU reports do not consistently follow up on its recommendations, which in turn raise questions about the benefits of the work of the JIU.

14. In the context of a robust, comprehensive oversight framework throughout the UN system, the JIU may duplicate the activities of existing oversight mechanisms. There is arguably not a role for the JIU if each UN entity's oversight functions, including audit, investigation and evaluation, were robust, in compliance with the governance principles, and, most importantly, fully coordinated in relation to cross-agency programmes. Indeed, the recommendations that are put forward in this review collectively address these gaps in oversight functions.

15. The General Assembly's decision to focus the JIU's work on identifying means to improve management and to ensure optimum use of available resources indicates a role more related to research and learning rather than oversight. Such a role usually resides within the mandate of executive management.

16. Given this review's set of recommendations for strengthening oversight, it is recommended that the current mandate of the JIU be discontinued. Matters of audit and inspection across the UN system or for cross-agency programmes should be covered by shared and co-ordinated OIOS resources, and matters of cross-agency research are covered by executive management – perhaps through the UN Chief Executives' Board (CEB).

4.3.1.5 Oversight recommendation 5
Set new standards for oversight of inter-agency programmes.

27. Oversight of programmes funded and operated jointly by a number of entities requires particular attention. Such programmes are typically supervised by an inter-agency committee at senior management level. Frequently, however, this programme structure does not provide for integrated oversight and participating entities conduct their audit and evaluation of their share of the programme. Such oversight is often overlapping and is therefore inefficient. Additionally, this oversight model provides no assurance that key risks to the programmes' effectiveness are being addressed. **For all such programmes, it is recommended that an integrated risk management framework be established and that audits and evaluations be carried out by one entity in an integrated fashion on behalf of all participating entities, using appropriate OIOS or internal audit resources from other UN entities, as necessary.**

28. For additional recommendations on internal audit and other oversight within the UN OIOS, please refer to the parallel UN OIOS report (Volume V).

4.3.2 Other Sample UN Entities in Phase 2

29. Several recommendations developed specifically for the United Nations also apply in varying degrees to the other four entities included in the detailed review in Phase 2. Comprehensive and robust enterprise risk management frameworks are not yet fully in place in any of these UN entities, although UNDP, UNICEF and UNHCR are already engaged in activities to introduce these concepts. The two recommendations on system oversight activities and oversight of inter-agency programmes similarly apply to the four other sample entities and particularly to UNDP, UNHCR and UNICEF, which operate some of the most significant programme portfolios in the UN system.

30. The recommendation on establishing an IAAC also applies to ICAO, which currently does not yet have an audit committee. UNDP and UNICEF have executive audit committees and UNHCR has an oversight committee. Both types of committees help ensure the greater independence and effectiveness of internal audit, but each also has the potential to be strengthened in line with the revised Terms of Reference for IAAC, in terms of their reporting line, responsibilities, procedures and provisions for independent membership. These aspects are covered by recommendations 6, 7 and 8, which follow.

4.3.2.1 Oversight recommendation 6
Set up an audit committee for ICAO and enhance the operational independence of the internal audit function within UNHCR, UNDP and UNICEF.

31. As already mentioned, the establishment of an audit committee is required at ICAO. This should be implemented using the latest UN IAAC Terms of Reference as a model.

32. Effective oversight is dependent upon both the internal audit function as well as the audit committee functioning independently. **UNHCR has an oversight committee as a management organ, and the recommendation is to enhance independence by introducing independent outsiders as members and increasing their representation over time and eventually reach full independence for all members. Secondly, and applicable to UNICEF and UNDP, steps should be taken to have the audit committees report directly to the governing body rather than to executive management. These recommendations would ensure that the reporting and budget allocation of internal oversight, as well as the hiring/dismissal of its head, are a responsibility of the audit committee and independent from executive management.**

4.3.2.2 *Oversight recommendation 7*
Clarify responsibilities of the UNHCR Oversight Committee with joint responsibilities for internal audit, investigations and evaluation.

33. Within UNHCR, the oversight committee has responsibilities for the three core oversight functions of internal audit, investigations and evaluation. In conjunction with the previous recommendation, an independent audit committee should only provide governance for the internal audit and external audit functions. The evaluation and investigation functions should have reporting lines to executive management (in parallel with recommendations in the UN OIOS report), although with guaranteed independence and with strong accountability to the governing bodies.

4.3.3 Costs

34. Where appropriate, the incremental cost impact of the above oversight recommendations have been estimated in terms of one-time implementation costs and annual recurring costs. These incremental direct costs involve changes to executive management processes, including the following:

- The establishment of robust enterprise-wide risk management will require strengthening of existing control functions and may require increased use of outside expertise [in the order of USDmm $20.800 for one time non-recurring costs and USDmm $4.400 for recurring costs for the five sample entities].
- The establishment of independent audit committees will require costs for remuneration, travel to meetings, and Daily Subsistence Allowance (DSA) for members [in the order of USDmm $0.100 for one time non-recurring costs and USDmm $1.400 for recurring costs for the Secretariat].
- The recommendation on coordination of system activities will result in an annual savings of USDmm $4.900 with the potential discontinuation of the JIU. A share of these resources could be re-directed to a team of advisors supporting the Secretary General in his role as chair of CEB.
- The recommendation on oversight of inter-agency programmes is likely to lead to a more efficient oversight set-up collectively, but it will be necessary to establish clear procedures for cost recovery to ensure that these are distributed correctly to participating agencies.
- Other UN entity-specific recommendations for the establishment of audit committees and improved effectiveness and independence of internal audit functions will require costs for remuneration, travel to meetings, and DSA for members [in the order of USDmm $0.200 for recurring costs].

35. The following chart outlines the one-time non-recurring and recurring costs associated with the oversight recommendations. Recurring costs represent costs for one year. It is emphasised that these recommendations and the associated incremental costs, together with those in Volume III, represent an integrated package of measures and should be implemented as a whole.

Estimated Costs for Oversight Recommendations

Recommendations	Estimated Costs (USDmm)		*Estimated Savings (USDmm)*
	One-time non-recurring	Recurring	
Introduce a systematic risk management (ERM) framework and assign responsibility for internal controls and reporting on internal controls effectiveness to executive management. (4.3.1.1 & 4.3.1.2)	$20.800	$4.400	*$0*
Implement the General Assembly's resolution to establish an Independent Audit Advisory Committee (IAAC). (4.3.1.3)	$0.100	$1.400	*$0*
The Joint Inspection Unit (JIU) should be discontinued. (4.3.1.4)	$0	$0	*$4.900*
Set new standards for oversight of inter-agency programmes. (4.3.1.5)	$0	$0	*$0*
Establish an audit committee and enhance the operational independence of internal audit functions. (4.3.2.1)	$0	$0.200	*$0*
Clarify responsibilities of the UNHCR Oversight Committee. (4.3.2.2)	$0	$0	*$0*

36. Implementation of competent and effective audit committees on a consistent basis together with improved oversight of cross-agency activities and other changes will considerably strengthen oversight within the UN system. On top of this, further investment into the introduction of effective risk management processes and greater management accountability for internal controls will provide a sustainable framework for the longer term.

4.3.4 Implementation planning

37. Upon adoption of the cohesive set of recommendations, the implementation of audit committees could be implemented within one annual General Assembly session. The same is the case with the re-structuring of system oversight activities. The recommendations on risk management frameworks, internal controls and inter-agency oversight arrangements will take longer to fully implement. Prior experience suggests that basic frameworks and awareness can be established over the course of one budget period, but it is likely that two budget periods will be required before the practices are fully integrated into the UN's governance and oversight practices.

38. The integrity and reputation of the United Nations has suffered from widely reported failures in its systems of oversight. Such reported failures have also arisen, to a lesser extent, in other entities in the UN system. While this review has not sought to link the gaps identified to specific incidents, it proposes changes for clearer management responsibilities for internal controls, more robust risk management frameworks and reinforcing the independence and capacity of internal audit functions. Collectively, the recommendations will help significantly improve assurance and strengthen the capacity of executive management and governing bodies to exercise effective governance and oversight.

Appendices

4.4 Appendix 1: Gap Analysis against the Good Governance and Oversight Principles -- Oversight

6. OVERSIGHT – AUDIT, RISK MANAGEMENT & COMPLIANCE

6.1 It is the Governing Body's ultimate responsibility to satisfy itself that management has a ***robust framework for internal controls, risk management, systems and compliance with laws, regulations and appropriate accounting standards***. These responsibilities should be reflected in statements by the Governing Body in the entity's annual report, showing how they have been discharged.

PRINCIPLE 6.1

UN CURRENT PRACTICE: **Principle** 6.1 states that it is the responsibility of the governing body to ensure that management has a robust internal control framework. This framework has a wider set of implications than those covered by the audit committee, internal audit and external audit. In many entities, the oversight function includes activities such as internal audit, investigations, risk management, and sometimes evaluation and monitoring functions.

GAPS: The degree to which governing bodies review the internal control framework varies widely and when they exist, such reviews tend to be ad hoc rather than systematic and annual. It is also not typical within the UN system that the governing body or executive management report on an annual basis on the effectiveness of the system of internal controls. This lack of clear management responsibility for internal controls can significantly contribute to ineffectiveness and difficulties between management and internal audit on controls issues and recommendations. Entities recognize weaknesses in aspects of their internal control framework and ascribe them to insufficient funding, and lack of consensus on risks. In a few cases, lack of appreciation of technical aspects of oversight among governing body members or executive management exists.

There are gaps in risk management practice across the UN and within funds, programmes and specialized agencies. Most entities, including the Secretariat, do not have a comprehensive risk management framework, or a consistent process for risk assessments. However, within the UN system, there is a growing awareness of this control and some entities are preparing to implement a risk management framework.

A particular gap is observed in some specialized agencies where audit recommendations have not been addressed sufficiently, in some cases over a period of several years. In most cases, explanations for the outstanding recommendations are provided, and often the explanation is that the recommendations are too numerous given the size of the entity staff or that the recommendations are not useful for the entity. Particularly problematic gaps emerge in cases when the governing body fails to allocate sufficient funding to address audit recommendations comprehensively, against the recommendations of executive management. Unless such decisions are made and reported with explicit reference to the governing body's satisfaction with the oversight framework, they represent direct non-compliance with this principle.

Most governing bodies and executive management regard functions such as evaluation, monitoring, as components of an entity's oversight framework as a management tool. This review revealed that these functions were not consistently resourced and sometimes failed to meet the expectations of governing body and executive management. In a number of specific areas, entities have asked for guidance on whether audit and evaluation should be combined in the same functional unit. Furthermore, guidance on the appropriate staffing levels of various oversight functions has also been requested.

Two particular areas of concern emerge around inter-agency collaboration and system oversight bodies. The UN system regularly engages in multi-agency projects, such as the Iraq Fund and the Sudan Fund, but such projects often lack a commonly agreed approach for oversight, including auditing. In other cases inter-agency trust funds are generally not subject to comprehensive, integrated audits. Rather the tendency is that each agency will audit its own part of the project or trust fund, opening the oversight to clear risks and lack of clear assignment of ultimate oversight responsibilities to a particular governing body or executive management.

6.2 An ***Audit Committee*** should comprise independent experts who are financially literate and at least one of whom is a qualified accountant and/or auditor. The Governing Body should approve its membership and ensure it has appropriate terms of reference.

PRINCIPLE 6.2

UN CURRENT PRACTICE: **Principle 6.2** articulates the need for the establishment of audit committees comprised of outside independent members who are financially literate, and at least one of whom is a qualified accountant/auditor with recent and relevant experience. In support of this principle, audit committees should ideally exist for the Secretariat and for each fund, programme and specialized agency. The audit committee should have oversight over all internal oversight functions as well as external audit, and give approval for the selection and dismissal of the head of internal audit.

Overall, compliance in the UN system is moderate to low, as only a minority of entities currently have truly independent audit committees. However, the situation is evolving and, generally, in a more positive direction.

Specifically, among the specialized agencies only a few currently have audit committees; most UN funds and programmes have audit committees and, following the World Summit in September 2005, the UN General Assembly has resolved to establish an IAAC. However, there is growing awareness within the UN system of the need for creation of audit committees. A number of specialized agencies have, in some cases very recently, begun to establish audit committees and are still on a heavy learning curve with regard to their functioning.

Terms of Reference for the IAAC have also been written and further recommendations and updates to these terms have been incorporated in Appendix 3. Once such a committee is established, this will close a very significant gap at the UN General Assembly level.

GAPS: Some shortcomings of existing audit committees include a lack an insufficient number of independent members; lack of qualified members; and no independent oversight of the internal audit function. Several specialized agencies are awaiting the outcome of this report before moving forward to address this gap. Additionally, the creation of the IAAC is pending the review of its Terms of Reference within this evaluation.

6.3 ***A professional and competent internal Audit*** function should be accountable to the Executive Management but should have the right to report independently to the Governing Body, through the Audit Committee and should have appropriate terms of reference or charter, which includes a requirement for regular quality reviews.

PRINCIPLE 6.3

UN CURRENT PRACTICE: Principle 6.3 refers to the independence of internal audit and the necessity of being able to exercise independent judgment at all times. This independence should be interpreted to apply both to reporting lines and selection of members and the head of internal audit.

Regarding the professionalism and competency of the internal audit function, some funds, programmes and specialized agencies have well-staffed internal audit functions.

Regarding independence in relation to reporting lines, internal audit functions within most funds and programmes are accountable to executive management in that they report their findings to management, and management has the ability to officially comment on all findings. Internal audit functions of the funds and programmes and some specialized agencies also have the ability to report independently to their respective governing bodies via executive management reports and do this on an annual basis. It should be noted that executive management should not influence the content of audit findings in reports to the governing body.

Regarding independence in relation to selection of internal audit unit heads, the OIOS provides an example of compliance. The head of the OIOS is selected and dismissed independently of executive management, and both decisions have to be confirmed by the General Assembly. A number of specialized agencies follow this best practice and have a similar setup.

GAPS: For the specialized agencies, there are variances in compliance with internal audit best practice principles mainly in the areas of the availability of reporting lines and approval of plans and resources that are independent of executive management. Some are also very small operations. Others have appropriate resources and the ability to report directly to governing bodies. In some agencies, the selection and dismissal of the head of internal audit can be undertaken by executive management without consultation or approval of the governing body.

For the funds and programmes, independence of the internal audit function may also be lacking in certain instances where executive management influences the budget of the internal audit function. Some internal audit functions are considered understaffed and/or under-equipped. Most funds and programmes also lack a fully independent audit committee (as noted in principle 6.2).

A review of the UN OIOS has also been conducted. Preliminary findings around independence and the governance structure within which OIOS operates suggest the following (refer to Volume V "Comprehensive Review of Governance and Oversight within the United Nations Funds, Programmes and Specialized Agencies: Review of the Office of Internal Oversight Services ("OIOS")"):

Independence
The OIOS is constrained from conforming to this component of the Standards [Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing] in several important ways. Failure to address the independence issues noted herein will prevent the OIOS from being able to discharge any of its assurance duties effectively. The important areas where the OIOS does not conform to this standard are:

Scope is limited by the mandates for the OIOS which allow it to review the UN Secretariat (including Peacekeeping operations) and, on a request basis, certain funds and programmes but only to the extent that the OIOS has completed a negotiated agreement with the fund or programme to offer services. Such negotiations include discussions on the amount and level of resources that will be dedicated based upon an amount of funding that the individual fund or programme is able to dedicate. This mandate limits the OIOS from conducting oversight activities in two important ways: a.) it does not offer the OIOS the ability to evaluate risks and controls in joint operations that involve several UN entities, particularly those that are not covered by the OIOS' existing mandates; and b.) the negotiation process by individual funds and programmes limits the amount and nature of resources that the OIOS can deploy to that particular activity. It was reported to us that, on occasion, the amount and/or seniority of resources agreed to by the OIOS are less than what they believe are adequate for the purpose.

The funding structure for the OIOS limits the ability of the OIOS to determine where resources will be deployed and, hence, limits the scope of decisions by the OIOS. Funding is from three principal sources: regular budget, peacekeeping and extrabudgetary sources. Extrabudgetary resources are based upon negotiations with the auditee, discussed above. Due to the sensitivities and importance of maintaining funds for separate purposes across the UN, regular and extrabudgetary resources cannot be swapped and extra-budgetary resources must be used for the purpose for which they were identified. As a result, resources cannot be allocated to areas of emerging risk based on the OIOS' assessment of risk, and changes in risk cannot always be responded to by the OIOS without re-negotiating individual agreements or waiting for the next biennium budget process.

Fund accounting is an important component within the UN system because of the principle that separately-funded activities should neither be advantaged nor burdened by allocations of cost that benefit activities other than those providing the funding. This is a fairness issue. At the same time, functions that cut across different activities need to be funded in a simple manner to avoid excessive cost of administration. These principles of fairness and simplicity are in conflict when it comes to the funding arrangements for the OIOS. In addition to consuming management time and effort, overly complex funding arrangements limit the flexibility of the OIOS to move resources from one activity to another to respond to changes in risk. This is

one of the limitations in providing the OIOS with operational independence. The OIOS reports 12 different funding sources in addition to the regular budget, which essentially represents 12 different negotiations on scope and resources.

There is currently no executive management body within the system to which the OIOS can turn for effective support in dealing with issues that may arise. For example, there are instances where auditees will try to manage the scope of work by placing demands upon the nature, timing or extent of audit procedures or the environment in which the auditors must operate. When this rises to a level above normal accommodations that need to be agreed between auditor and auditee, the OIOS has no authoritative management body that is tasked with dealing with these issues.

Governance structure within which the OIOS operates

The OIOS currently reports functionally to the General Assembly and administratively to the Secretary General as Chief Administrative Officer. Operational independence is in one sense assured by being accountable to the General Assembly but this is not effective due to the size and nature of the General Assembly and, by the need for specialist technical skills and knowledge to oversee the OIOS function. There is no effective executive management to which the OIOS can appeal in matters of scope management or issues of conflict with programme management.

Currently, there is no effective "dual reporting" mechanism both internal and external for the OIOS. Reports are issued and made available to external bodies (General Assembly and Member States, on request) but no executive body within the organisation has effective responsibility for reviewing completed reports prior to release to the General Assembly and Member States or monitoring progress against plan. There is no executive body operationally supporting the OIOS in matters of scope management, issue resolution or adequacy of resources.

The activation of the IAAC is pending the review of its provisional terms of reference. The provisional terms of reference for the IAAC presents broad criteria for membership that may limit its effectiveness. Membership is open to candidates who have held "senior management or executive positions" and is not restricted to individuals with globally-recognised reputations in the field of audit and governance.

The mandates of internal and external oversight are many and varied. The OIOS is one of several oversight mechanisms. Internal oversight is granted to the OIOS for the UN Secretariat and to several internal audit, investigative and inspection units for funds, programmes and specialized agencies. External oversight is granted to the Board of Auditors, whose remit is for the UN Secretariat and funds and programmes. The JIU has a mandate over the entire UN system including the specialized agencies. The JIU is also accountable to the General Assembly but has no other specific governing body oversight.

Several factors are combining to make the OIOS appear like an external oversight body in the eyes of the auditees: a.) the OIOS' ability to report directly to the General Assembly; b.) the requirement for the OIOS reports to be made available to Member States on request; and c.) the ability of the OIOS to launch investigations on the basis of internal audit findings. The latter has become a lightening rod issue where some auditees have come to view the OIOS as operating purely in a detective mode, rather than providing management with objective assurance as it discharges its responsibilities to assess risk, understand risk and implement controls. As a result, the risk exists that co-operation between the OIOS and the auditees will deteriorate further, which will only limit the ability of management to benefit from the OIOS. The responsibility of management to assess and manage risk and the OIOS' role in providing assurance around that process has not been effectively described or adopted.

There are duplications of mandates and inconsistencies in standards amongst the organs of internal and external oversight. Certain OIOS' auditees have reported confusion over numerous consecutive audits by various oversight bodies that appear repetitive in scope. For example, the Board of Auditors has within its remit all of the organisations covered by the OIOS and considers matters of internal control in those entities, as does the OIOS. The OIOS internal audit division uses a common framework, but interpretation and application may vary widely.

6.4 ***External Audit*** shall be appointed and accountable to the entity's Assembly of Member States, through the entity's Audit Committee.

PRINCIPLE 6.4

UN CURRENT PRACTICE: **Principle 6.4** refers to the reporting lines of the external auditor which, for the UN secretariat, funds and programmes, and regional commissions, is the Board of Auditors (BoA). The specialized agencies have their own the external auditors. In all entities there is general compliance with accountability in relation to the legislative bodies and independence. Research and interviews generally found that the process of external audit within the UN, funds, programmes and specialized agencies was either satisfactory or working well.

GAPS: One potential gap arises in the lack of a formally established mandate for the external auditor in the charter of several entities. In some cases, the lack of rotation of the lead external auditor may also potentially compromise the independence of the external auditor. Additionally, it has been observed that procedures around reporting of the external auditor could be viewed as insufficient in that they only report mainly every 2 years for the most part on the biennial budgets, with no formal reporting on off-budget years. Further, insofar as the entity lacks an audit committee, this also presents a potential gap in the effectiveness of the oversight of the external audit function and too much reliance on management for implementation of recommendations.

4.5 Appendix 2: Gaps and Recommendations for Sample Entities -- Oversight

1. UN SECRETARIAT

Summary of gaps and recommendations for UN Secretariat – Oversight

The General Assembly has resolved to establish an Independent Audit and Advisory Committee (IAAC). It is expected that, once established and fully operational, the IAAC would significantly strengthen oversight within the UN. A modified version of the IAAC's terms of reference is included in this report.

Integration of internal audit, evaluation, investigation, and management consulting functions into one office (the OIOS) inhibits the effectiveness of each function. Please refer to the report on the Review of the OIOS (Volume V) for specific details on gaps and recommendations relating to these functions.

Due to the UN's unique mandate and the complexity of its programs, which are often implemented with various external partners, executive management should adopt a systematic enterprise risk management framework. While risk management techniques already occur informally, critical departments of the UN would benefit from development and implementation of a comprehensive enterprise-wide risk management framework. Such a framework would capture and measure risks and embed them into strategy setting. This framework would be implemented on a common set of broad-based steps, which can be tailored to meet the unique requirements of the UN Secretariat (and any other UN entity) and thereby, allow risk management capability to be instituted as a tool of management.

Finally, in line with other major international institutions and modern public sector and regulatory developments, it is recommend that the UN considers requiring senior management of all UN entities to provide an annual or biennial assurance that internal controls are properly maintained within their organizations. This will also provide a much stronger environment for a mutually productive relationship between executive management and internal audit in the long term.

Current Practice	Gap	Recommendation		
		Activities	Benefits	Cost Assumptions
Independent Audit Committees (4.3.1.3)				
The GA recently decided to establish an independent audit committee (the IAAC), and provisional terms of reference developed.	*Audit Committees either do not exist or are not yet fully implemented or independent* Some audit committees exist, but this practice is not yet widespread and effective. Inconsistencies exist across system in qualification of members and level of independence.	***Implement the General Assembly's resolution to establish an Independent Audit Advisory Committee (IAAC).*** A properly constituted audit committee is an essential component in ensuring the independence and effectiveness of internal and external audit in any large organisation. The General Assembly in its resolution 60/248 of 1 February 2006, decided to "establish the Independent Audit Advisory Committee to assist the General Assembly in discharging its oversight responsibilities, and requests the Secretary-General to propose its terms of reference, ensure coherence with the outcome of the ongoing review of oversight and report to the Assembly at the second part of its resumed sixtieth session on related resource requirements." This report fully endorses the establishment of this committee and recommends its implementation. Draft Terms of Reference for the IAAC had been prepared by the UN Secretariat to support the General Assembly resolution. These have been re-examined and updated as part of this review utilising further external best practices and an updated version is attached as Appendix 3 of this volume. The proposed key changes are as follows: - The Committee shall comprise of 10 members (changed from "five or seven"); - Every 3 years, one half of the Committee membership (i.e. 5 members) will retire and new members will be appointed (the ToR was less specific and simply noted "new appointments to the committee will follow the same appointment process"); -The Committee will conduct its business around a standing agenda of items and reports drawn from the updated Terms of Reference, for example an updated risk register and internal	Ensuring appropriate attention to and prioritisation of issues resulting from both internal and external audit activities. Streamlining and systematising follow-up of audit recommendations. Providing transparency and accountability for key audit processes and their outcome.	IAAC will have 10 members. There will be quarterly meetings each lasting 4 days. It is expected that committee members will be compensated for about 1 week's worth of work per month. IAAC will have a secretariat comprised of 1 general staff, 1 junior professional, and 1 director, who will work full time supporting the IAAC. IAAC will, in addition to incurring direct costs, potentially impose costs on other entities in the organization, including internal audit, external audit and management. Aggregate cost would be 0.5 full-time equivalent at the senior staff level. There will be a minor charge related to the use of executive search firms. No cost savings will be realized by relieving the ACABQ of any audit advisory functions it currently performs.

Current Practice	*Gap*	*Recommendation*		
		Activities	***Benefits***	***Cost Assumptions***
		and external audit progress reports; -Ensure financial system contingency plans are robust in the event of failure, fraud or misuse; -Request the necessary management information and reports, which must not be unreasonably withheld, to conduct its work in a timely and efficient manner; -Due to their independent status, IAAC members will be remunerated by the United Nations for their time in fulfilling their role on the IAAC together with appropriate expense allowances; The terms of service will be term limited to maximum 6-year term (changed from "single three"); -The Secretary-General will nominate individuals to serve on the IAAC all of whom must be financially literate, and at least one must be a qualified accountant and auditor. These revised Terms of Reference should be implemented as the General Assembly's recommended IAAC and also be put forward as a model for other UN entities to adopt for their own audit committees. An additional matter to be considered as a result of the set up of an IAAC is the impact on the current work and responsibilities for the ACABQ and the Fifth Committee with regard to audit matters so as to avoid duplication or confusion. This report recommends that budgets for the OIOS and the external auditors should be presented to the Fifth Committee through the IAAC, and thus relieves the ACABQ of their advisory role in this regard.		
Effectiveness of internal audit (4.3.2.1)				
Please refer to the OIOS report.	*Effectiveness of internal audit weakened by integration with other non-audit functions*	For recommendations on internal audit and other oversight functions provided by the OIOS, please refer to Volume V of this review.	Please refer to OIOS report for benefit detail of addressing gap	For costs, please refer to the OIOS report.

Current Practice	*Gap*	*Recommendation*		
		Activities	***Benefits***	***Cost Assumptions***
	In the Secretariat, specifically, integration of internal audit, evaluation, investigation, and consulting results in weakening of all functions due to (i) resulting role confusion, and (ii) reporting lines being inappropriate for function, i.e., integration poses a threat to independence of internal audit and a corresponding obstacle to the effective use of consulting, evaluations and investigations as management tools.			
Enterprise-wide risk management and internal controls (4.3.1.1 and 4.3.1.2)				
This report notes that all managers within the UN do not consistently take full responsibility for implementing internal controls, which is an enabler for enterprise risk management. Currently, it has been observed that internal and/or external audit have taken on the responsibility for internal controls, as opposed to management who should ultimately be accountable. As a result, it is much more difficult, especially for internal audit, to promote improved internal controls when management is not held	*Absence of clear management responsibility for risk management and internal controls* The absence of a robust enterprise risk management system that effectively identifies and manages risks on an ongoing basis makes it difficult for each governing body to set the appropriate balance between risk and performance. Management does not report regularly to board on risk factors, and board does not take appropriate steps to satisfy itself that risk is adequately mitigated. In the absence of specificity around risk, governing	***Implement a systematic enterprise risk management (ERM) framework*** The governance and monitoring of risk by management must be conducted transparently and provide key inputs into the activities of key oversight functions (e.g. internal controls), as well as the entities' strategy and budget allocation, regardless of audit's assurance role. Such risk management focuses on internal risks and is a necessary component of enterprise risk management. Furthermore, it enhances the capability of making risk response decisions, for the complex operational mandates of the UN, which are often developed and implemented under difficult circumstances. Due to the UN's unique mandate and the complexity of its programs, which are often implemented with various external partners, UN Secretariat executive management should adopt a systematic ERM	Enhanced accountability Enhanced capabilities to align risk appetite and strategy and link growth, risk, and return The governing body and executive managers confidently make informed decisions regarding risk/reward tradeoffs related to existing programmes and new opportunities Risks are communicated internally and externally facilitating transparency within the entity and across donor community Promotion of a risk driven culture through a more	Implementing ERM takes between two and three years and the average implementation costs, including IT, is about 0.03% to 0.05% of total resources available for each year of implementation. For the Secretariat, implementation costs for ERM are about 0.05% of total resources available each year of the implementation given the complexity in identifying and managing risks. One-time costs include training on both ERM and internal controls for about 5,000 UN staff, the purchase of technology systems, general temporary assistance for

Current Practice	*Gap*	*Recommendation*		
		Activities	***Benefits***	***Cost Assumptions***
accountable in a consistent manner. Despite some promising recent risk management capability development in some UN entities, the strategic alignment of risk management and responsibility for internal controls within the UN has yet to be achieved. Within the current UN environment, it is challenging for the ACABQ and the Fifth Committee to verify that risk management is robust, since executive management does not systematically manage and report on internal controls, risk management, or compliance with UN rules and accounting standards. In the absence of a robust enterprise risk management framework, it is arduous for committees to obtain risk information, including risk identification, risk analysis and recommended mitigation strategies. Additionally, an office within the UN has recently assessed current risks and risk management	bodies typically request overly detailed information from management to ensure that the organization is sufficiently protected. Responsibility for internal controls is also not clearly or formally understood or defined within the UN resulting in a lack of accountability for internal control effectiveness. Responsibility should be with executive management. This is line with many best practices in both public and	framework. This framework would be implemented on a common set of broad-based steps, which can be tailored to meet the unique requirements the UN and thereby, allow risk management capability to be instituted as a tool of management. Such a framework would involve the following key components: - Development of an ERM framework; - Specifications of objectives and key risks, prioritisation of risks, and identification of risk response and control mechanisms; - Create a central ERM organisational structure of dedicated risk management professionals whose primary roles are to define and integrate risk into line management, drive risk capability throughout the UN system, assist in identifying and co-ordinating cross-functional risks and maintain a central risk repository; - Incorporation of risk management into the processes and procedures through the design of risk management and measurement methodology; - Periodic reporting on ERM to the IAAC; and - Periodic reporting by executive management regarding the risk management framework and how risks are managed, as part of their annual management statement. ***Assign responsibility for internal controls and reporting on internal controls effectiveness to executive management*** Developing and maintaining internal controls is fundamental to good governance and oversight. Whereby, effective internal control provides management and the governing body with reasonable assurance regarding safeguarding assets. Internal control is a set of processes, effected by an entity's governing body, management and staff,	informed risk based decision-making capability. Systematic and consistent identification, assessment and, management of risks across each entity and among Secretariat entities. Risks are explicitly considered when evaluating new programmes/ projects/ budget allocations both on a standalone and country-wide basis, which helps in prioritizing initiatives. Formal recognition of management's responsibility for internal controls would clarify and improve relationships with internal and external audit and facilitate improvements in internal controls. Regular formal representation by management to the proposed IAAC and General Assembly would periodically reinforce and sustain this obligation.	numerous staff at various levels, and professional services. There is recurring IT support and maintenance costs. Recurring 10 to 15 additional staff (5 general staff, 5 junior professionals, and 3 senior professionals) are required to support ERM.

Current Practice	*Gap*	*Recommendation*		
		Activities	***Benefits***	***Cost Assumptions***
practices found within the office, and has begun to develop a high-level roadmap. While risk management exists on an ad hoc basis, in various UN departments and offices, this risk management is not comprehensive and systematic. The UN also does not formally assign responsibility for internal controls to anyone. There is a commonly held view that effectiveness of internal controls is the responsibility of audit (internal and external), which leads to a lack of obligation in many cases from executive management to address audit recommendations on improving controls. It also disrupts the OIOS/ management relationship.	private sectors and with growing numbers of international institutions.	designed to provide practical assurance regarding the achievement of objectives in the following categories: - Effectiveness and efficiency of operations. - Reliability of financial reporting. - Compliance with the applicable laws and regulations of the UN. This definition recognizes that a system of internal control extends beyond those matters which relate directly to the functions of the accounting and financial departments, but is consistent with broadly accepted definitions of internal control. Management should report annually or biannually as part of their regular final financial reporting either to the newly formed IAAC and/or the General Assembly. This will provide for a systematic management representation that will have a positive effect on the quality of the organisation's internal controls, the effectiveness of internal and external audit activities and improve communications between management and its governing body.		
Coordination of inter-agency oversight activities (4.3.1.4 and 4.3.1.5)				
The Joint Inspection Unit (JIU) plays a UN system oversight role. Historically, the JIU has played a system inspection role with wide-reaching powers of investigation covering the whole UN system. However, the General Assembly has recently restricted the JIU	*Oversight of co-ordinating mandates or programmes is not always effective* In the context of a robust, comprehensive oversight framework throughout the UN system, the JIU may duplicate the activities of existing oversight mechanisms.	***The Joint Inspection Unit (JIU) should be discontinued*** Given this review's set of recommendations for strengthening oversight, it is recommended that the current mandate of the JIU be discontinued. Matters of audit and inspection across the UN system or for cross-agency programmes should be covered by shared and co-ordinated OIOS resources and matters of cross-agency research are covered by executive management –	Enhanced co-ordination Improved use of available resources	No additional costs are transferred to agency-specific oversight bodies due to significant overlap in mandates/roles and responsibilities. Savings to the UN are equal to the total JIU budget. There may be other re-deployment costs.

Current Practice	Gap	Recommendation		
		Activities	Benefits	Cost Assumptions
mandate to focus on improving management and has also recently required collective approval of its work plan. Whilst the scope of the JIU mandate is extremely broad, the various governing bodies within the UN system do not exercise direct oversight over the JIU and the JIU is not directly accountable to each of them. The ability to conduct system-wide audits or inspections can be of importance but it also needs to be clearly matched to governing body responsibilities in order to be effective. While inter-agency programmes are quite common, and in some cases make up some of the largest and most complex programmes in the UN, there are no clear established procedures for their internal audit or oversight. It is quite common that each participating entity simply reviews its own share of the programme rather than participating entities reaching agreement on an integrated and comprehensive internal audit or evaluation of the programme.	There is arguably not a role for the JIU if each UN entity's oversight functions, including audit, investigation and evaluation, were robust, in compliance with the governance principles, and, most importantly, fully coordinated in relation to cross-agency programmes. Regional commissions, programmes, Secretariat offices, and programme coordinating committees may generate duplication of effort and ineffective use of funds and this is not always picked up due to lack of adequate co-ordinated oversight of the activities.	perhaps within the UN Chief Executives' Board (CEB). ***Set new standards for oversight of inter-agency programmes*** Oversight of programmes funded and operated jointly by a number of entities requires particular attention. Such programmes are typically supervised by an inter-agency committee at senior management level. Frequently, however, this programme structure does not provide for integrated oversight and participating entities conduct their audit and evaluation of their share of the programme. Such oversight is often overlapping and is therefore inefficient. Additionally, this oversight model provides no assurance that key risks to the programmes' effectiveness are being addressed. For all such programmes, it is recommended that an integrated risk management framework be established and that audits and evaluations be carried out by one entity in an integrated fashion on behalf of all participating entities, using appropriate OIOS or internal audit resources from other UN entities, as necessary.		For inter-agency programme oversight, implementation costs are neutral.

2. UNDP

Summary of gaps and recommendations for UNDP – Oversight

UNDP follows good practice with its creation of an independent audit committee of five members, all external. However, the role of the audit committee should be expanded to reporting to the Executive Board of UNDP. The Internal Audit function is carried out by the Office of Audit and Performance Review (OAPR), which is currently reviewing its own governance mechanisms. This review should consider enhancing the independence of OAPR by ensuring that its budget is reviewed by the new Audit Committee, which should also adopt the oversight of OAPR and provide a reporting line between OAPR and the Executive Board. Staff, structure and skills sets of OAPR could be enhanced to simplify roles, leverage knowledge and increase its standing.

UNDP's attention to risk management is supported by an ERM Roadmap, a Working Group and a Risk Management Committee. The effort needs to be further enhanced through the establishment and implementation of a systematic risk management framework, which will capture and measure risks, embed them into strategy setting, and manage them *inter alia* through the establishment of a risk management unit. Reporting procedures on risk should fully involve the Executive Board in the chain of risk-related responsibilities.

Evaluation in UNDP is anchored in the Evaluation Office, and covers all levels from strategic to project level. However, improvements to its functioning are recommended through the enhancement of its independence especially regarding resource allocation. Improved follow-up and implementation of recommendations is also required. Means to achieve this include an adaptation of the budget to ensure adequate staffing and resource levels, including consultants for skills not permanently required, a strategically based budget, and the Evaluation Office's control over this budget. Follow-up and implementation of recommendations should be embedded in a defined process.

Current Practice	*Gap*	*Recommendation*		
		Activities	*Benefits*	*Cost Assumptions*
Independent Audit Committees (4.3.2.1)				
UNDP has finalized its terms of reference for the creation of an independent audit committee to be made up solely of external members (5 in total). This committee succeeds the current Management Review and Oversight Committee (MROC) and its intended primary role is to advise the Administrator, taking into consideration the Financial and Staff Regulations and Rules as well as policies and procedures applicable to UNDP and its operating environment. The new Audit Committee will continue to report to UNDP's Administrator.	The Audit Committee reports to the Administrator. UNDP's Audit Committee will eventually report to the Executive Board.	Ensure that the newly assembled independent **Audit Committee reports to UNDP's Executive Board** (as currently planned).	Enhanced independence and accountability	UNDP has recognized the need to make this change and the new Audit Committee's terms of reference includes this stipulation. Over time, UNDP is already planning on making this change. Costs of this are negligible.
Effectiveness of internal audit (4.3.2.1)				
Institutional internal oversight mechanisms within UNDP are conducted by the Office of Audit and Performance Review (OAPR). OAPR is responsible for internal audits and investigations. OAPR employs a risk based approach to assess which country offices and HQ bureaus require audits. OAPR is currently undergoing a review of its governance mechanisms.	OAPR would benefit from enhancement of its independence regarding, specifically, resource allocation and reporting. Currently, review of the OAPR budget is undertaken by UNDP's executive management.	UNDP should **enhance independence of OAPR**. *Resource allocation* Given that the terms of the Audit Committee are currently being developed, OAPR should take the opportunity to ensure that its budget is reviewed and set by the newly established Audit Committee: - The budget should be prepared by the head of OAPR and presented to a designated management sponsor together with a risk assessment that supports the audit plan and a strategic and operational plan that supports the activities to be funded - Following discussion with the designated	Enhanced independence of oversight functions Enhanced accountability Stronger partnership between executive management and OAPR Enhanced achievement of objectives	Costs associated with this recommendation are negligible. While there could be some board secretariat costs, those are not expected to be significant. In terms of the administrator, who currently reviews the report, he will still review and comment on the report, so there are no cost savings associated with the removal this responsibility from his/her role.

Current Practice	Gap	Recommendation		
		Activities	**Benefits**	**Cost Assumptions**
		management sponsor, the budget and summary of the risk assessment and strategic and operational plans should be presented to the Audit Committee. The Audit Committee should have access to management through the management sponsor and to OAPR to discuss these plans		
	OAPR currently submits its report to the Administrator who reports on the results of audits and investigations to the Executive Board. The head of OAPR does not have a direct reporting line to the Audit Committee, though such reporting relationship is currently being planned.	*Reporting* - Once OAPR has completed its due diligence over reports, including obtaining input from management, reports should be issued to the Audit Committee - OAPR should be free to raise issues to the Audit Committee or to the Executive Board.		
	OAPR's capacity to provide guidance and constructive advice regarding audit findings, recommendations, and the implementation of the recommendations is not fully utilized.	- OAPR's role as a management tool should be enhanced by utilizing its expertise to provide guidance and constructive advice on audit findings, recommendations, and the implementation of the recommendations made OAPR and senior management should communicate on the degree to which OAPR's efforts have helped management improve operations or manage risk		
	Oversight of OAPR is not currently undertaken by the Audit Committee. Moreover, OAPR would benefit from improvements in its capacity (i.e., number of staff, structure, and/or skill sets).	Enhance the governance and organisational structure of OAPR. - Oversight of OAPR should be performed by the newly established Audit Committee - The organisational structure within which		

Current Practice	*Gap*	*Recommendation*		
		Activities	***Benefits***	***Cost Assumptions***
		OAPR operates should accomplish the following: (a) support the stature and independence of OAPR, (b) encourage deeper OAPR knowledge of the operations for which it provides services, (c) simplify and clarify roles, reporting relationships and communications, (d) leverage knowledge and skills and minimize general and administrative cost, and (e) ensure quality assurance.		
Enterprise-wide risk management (4.3.1.1)				
An ERM roadmap has been developed, which is intended to guide the implementation of ERM throughout UNDP. An ERM Working Group was established which is the current driving force behind UNDP's ERM initiative. A Risk Management Committee has been established and its role and responsibilities are currently being formulated. It is comprised of the Associate Administrator and various members from Senior Management.	A robust enterprise risk management system that effectively identifies and manages risks on an ongoing basis is yet to be developed at UNDP. Management does not report regularly to the Board on risk factors affecting UNDP, and the Board does not take the necessary steps to make sure that risks are adequately addressed, mitigated, and considered in the strategy development process.	**Further develop and implement a systematic enterprise risk management (ERM) framework.** Such development and implementation entails the following: - Conduct pilots by implementing a set of ERM strategies in a limited number of support operations functions and field offices utilizing and/or improving instruments already in place; - Develop and create policies that will embed ERM into strategy setting of the entity; - Design and create the organizational structure for ERM by creating (or enhancing an existing unit) a risk management unit independent from programme management and support operations; - Design and create processes and procedures through the design of risk management and measurement methodology;	As strategic planning integrates risk management, proper compensation of the risks being assumed and adequate optimization of resource use are ensured The governing body and executive managers confidently make informed decisions regarding risk/reward tradeoffs related to existing programmes and new opportunities Risks are communicated internally and externally facilitating transparency within the entity and across donor community Systematic and consistent identification, assessment, and management of risks across UNDP Risks are explicitly considered when evaluating new	Implementing ERM takes between two and three years and the average implementation costs, including IT, is about 0.03% to 0.05% of total resources available for each year of implementation. For UNDP, implementation costs for ERM are about 0.05% of total resources available each year of the implementation given the complexity in identifying and managing risks. There are ongoing IT support and maintenance costs. Ongoing, 2 additional staff (1 junior professional and 1 senior professional) are required to support ERM.

Current Practice	*Gap*	*Recommendation*		
		Activities	***Benefits***	***Cost Assumptions***
		- Design and build systems and technology to systematically capture the entity's risks; - Design and report on the entity's risks internally (to executive management and the risk committee or similar body) and externally (to stakeholders via the annual report); and - Develop a solid communication strategy through strong tone from the top.	programmes/ projects/ budget allocations both on a standalone and country-wide basis, which helps in prioritizing initiatives	
Effectiveness of evaluation function				
Evaluations within UNDP are guided by the Evaluation Office ("EO"). Evaluations occur at 4 levels of the organization: (1) Decentralized evaluations at the project and program level managed by the country office with support from the Evaluation Office, (2) Outcome evaluations of MYFF strategies/ developmental results at the country office level managed by the country office and mandated by senior management, (3) Regional program evaluations conducted by the Evaluation Office, and (4) Strategic and thematic evaluations across the entity conducted by the Evaluation Office. The Evaluation Office reports its findings and management's response to its findings to the Executive Board 3 times per year. The Evaluation Office has drafted an Evaluation Policy (to be	The Evaluation Office would benefit from enhancement of its independence regarding, specifically, resource allocation. Currently, review of the EO budget is undertaken by UNDP executive management.	The Evaluation Office (EO) should be independent in determining the scope of evaluations, performing work, and communicating results. **Enhance independence** of UNDP's evaluation function. EO's budget should include resources sufficient for: - Professional and support staff; - Operational support (including training, IT infrastructure, travel, etc.); - Consultants and experts on an as needed basis for skills that may not be practical to retain full time; - Access to professional support including counsel and communications professionals, as needed; - An amount of unplanned time to enable it to respond to Executive Board mandated work that arises throughout the plan period.	Improved efficiency and effectiveness of evaluations	The main change that needs to occur with the process of evaluation is ensuring that the recommendations that arise from evaluation reports are implemented. Any additional costs in executing recommendations would be included in programme budgets, which is difficult to measure as it is spread throughout the organization. Also, "downstream" costs have been explicitly excluded from the cost calculations.

Current Practice	Gap	Recommendation		
		Activities	Benefits	Cost Assumptions
approved by the Board in 2006) that includes evaluation norms and standards.		- The budget should be prepared by the head of EO in discussion with management and presented to a designated management sponsor together with a strategic and operational plan that supports the activities to be funded; - Following discussion with the executive management sponsor, the budget and summary of the strategic and operational plans should be presented to the Executive Board. The Board should have access to management and to EO to discuss these plans; - Once a budget has been agreed to, EO should have complete control over how this budget is spent. No further interference on the deployment of resources should be applied by any body outside of EO.		
	The effectiveness of the evaluation function has been hindered by insufficient and non-systematic follow-up and implementation of recommendations.	Enhance **effectiveness of evaluation** function by creating a strategy to implement and follow-up on recommendations made by the Evaluation Office.		

3. UNICEF

Summary of gaps and recommendations for UNICEF – Oversight

The UNICEF audit committee assesses the adequacy of internal audit, including the effectiveness and quality of the audit function. Furthermore, it assesses the adequacy of internal audit resources. The audit committee has several external members; however, the best practice principles require a board entirely comprised of external/independent members. It is therefore recommended that UNICEF increase the number of external/ independent audit committee members. UNICEF's audit committee reports to the Executive Director; however, best practices require that the audit committee report to the governing body (the Executive Board). It is therefore recommended that UNICEF implement a reporting line from the audit committee to the Executive Board.

The Office of Internal Audit (OIA) is responsible for internal audits and headquarters financial investigations. Most investigations are carried out by field office personnel. OIA reports to the Executive Director; however, according to the best practices principles, OIA should be "accountable to executive management but also report independently to the governing body through the audit committee". It is therefore recommended that the reporting lines of OIA be adjusted accordingly.

UNICEF has plans to implement systematic risk management starting mid-2006. The plans will address insufficient connection between risk and strategic decision-making. UNICEF should continue focusing on capturing, measuring and prioritizing key risks, as well as including risk factors in the strategic decision-making process.

Current Practice	Gap	Recommendation		
		Activities	Benefits	Cost Assumptions
Independent audit committees (4.3.2.1)				
UNICEF has an audit committee charter which redefined its role, function and composition of committee members in January 2006. This was based on best practices in public and private sectors, external auditors input, and IIA standards. The audit committee's new structure is comprised of six members (three members who are external and three UN non-line staff, who do not have budget or operational responsibilities. There is sentiment within UNICEF's management for the need to eventually migrate to a fully external audit committee. Currently, the audit committee reports to the Executive Director but also has the authority to report to the Executive Board, if needed.	Three of the six audit committee members are not external. The audit committee reports to the Executive Director.	**Increase the number of external audit committee members.** **The audit committee should report to the Executive Board.** **For the internal audit group, add a secondary reporting line so that it reports independently to the board through the audit committee.**	Enhanced external oversight.	The change will be made as terms expire and the nomination/selection process will remain the same and replace the current, non-independent members with independent members. Since this follows the existing process there would be no additional costs for nomination/selection. External members have travel and per diem costs that are reimbursed. The committee meets four times a year for two days. There will be no severance costs to replace existing, non-independent members. During one meeting of the senior professional team, discuss the changes in reporting lines. Update the audit committee charter to reflect the changes in reporting lines. This is a negligible cost.
Effectiveness of internal audit (4.3.2.1)				
The Office of Internal Audit is responsible for internal audits and HQ financial investigations. It reports to the Executive Director. Most investigations are carried out by field office and regional office personnel under guidance and supervision of internal audit. The Office of Internal Audit therefore has two persons assigned to investigations, and	None.	Not applicable.	Not applicable.	Not applicable.

Current Practice	Gap	Recommendation		
		Activities	**Benefits**	**Cost Assumptions**
these are not dedicated full-time. When necessary, the Office can request additional resources from OIOS. The Office of Internal Audit and the Evaluation Office collaborate, including cases where evaluation identifies a topic for further investigation. The reverse is also true, in that, Internal Audit raises areas of program concern for evaluation follow-up. The audit committee assesses the adequacy of internal audit, i.e. the effectiveness and quality of the audit function. The audit committee also assesses adequacy of resources. Reports from internal audit are submitted to the UNICEF's Executive Director.				
Enterprise-wide risk management (4.3.1.1)				
UNICEF has identified the need for systematic risk management. They have completed a pre-assessment and have developed recommendations. These recommendations are included within this table (under "Recommendation - Activities"), along with some additional COSO standards. Internal Audit is driving implementation of systematic risk management and is drafting a request for proposal for an	While plans are actively underway, the implementation has not yet been completed.	**Continue to implement a systematic enterprise risk management (ERM) program that incorporates UNICEF's recommendations**, included among the following: - Assesses the entity's current state regarding objectives, key risks, and risk management practices; - Prioritizes key risks by assessing impact (financial, human resource, reputation, strategy) and probability (likelihood of occurrence);	As strategic planning integrates risk management, proper compensation of the risks being assumed and adequate optimization of resource use are ensured. The governing body and executive managers confidently make informed decisions regarding risk/reward tradeoffs related to existing programmes and new opportunities. Risks are communicated	Implementing ERM takes between two and three years and the average implementation costs, including IT, is about 0.03% to 0.05% of total resources available for each year of implementation. For UNICEF, implementation costs for ERM are about 0.04% of total resources available each year of the implementation given that UNICEF has done some initial work in developing risk management

Current Practice	*Gap*	*Recommendation*		
		Activities	***Benefits***	***Cost Assumptions***
external consultant to facilitate its implementation. UNICEF has initiated the adoption of systematic enterprise risk management. This goal has been set and the activities have been planned with implementation starting mid-2006.		- Formulates a high-level design of the framework by conducting, for example, a cost-benefit analysis to determine an effective level of robustness of the future-state ERM framework; - Develops the ERM framework suitable to the entity; - Conducts pilots by implementing a set of ERM strategies in a limited number of support operations functions and field offices utilizing instruments already in place; - Develops and creates policies to embed ERM into strategy setting of the entity; -Designs and creates the organizational structure for ERM by creating a risk management unit independent from programme management and support operations; - Designs and creates processes and procedures through the design of risk management and measurement methodology; - Designs and builds systems and technology to systematically capture the entity's risks; - Reports on the entity's risks internally (to executive management and the risk committee or similar body) and externally (to stakeholders via the annual report); - Institute a clear communications function that will create	internally and externally facilitating transparency within the entity and across donor community. Systematic and consistent identification, assessment, and management of risks across UNICEF. Risks are explicitly considered when evaluating new programmes/ projects/ budget allocations both on a standalone and country-wide basis, which helps in prioritizing initiatives.	There is ongoing IT support and maintenance costs. Ongoing, 2 additional staff (1 junior professional and 1 senior professional) are required to support ERM.

Current Practice	*Gap*	*Recommendation*		
		Activities	***Benefits***	***Cost Assumptions***
		a communications plan for UNICEF. Include enhancement of staff's understanding of how risk management works and staff's role in risk management. (Also see RBM and accountability recommendations on communication plan); and - Create a risk officer that would manage ongoing ERM for UNICEF.		

4. UNHCR

Summary of gaps and recommendations for UNHCR – Oversight

UNHCR has an Oversight Committee which meets quarterly and includes one independent member. To adapt to best practice standards, membership of the Oversight Committee should be amended to include only independent members, including the chair, and should institute procedures whereby responsibility is allocated within the organization for follow-up on recommendations, and reporting on follow-up is systematized. It should be noted that the latter items are already on the agenda for the next Oversight Committee meeting.

Having recognized the importance of risk management, UNHCR is in the process of developing an Organization-wide Risk Management Framework. This will systematize risk management in the future, when the process of developing the RM is completed. During the process, due attention should be given to embedding risk analysis in the strategic planning and decision making process, conducting pilots to create lessons-learned applicable to the rest of the organization, and developing a solid, leadership-driven communications strategy on risk.

While awareness of accountability issues has led the organization to develop an accountability portal (a repository of information on accountability with aim to prevent fraud and corruption), and has piloted an accountability framework focusing on protection and programme planning issues related especially to women and children, there remain accountability weaknesses, with respect to the lack of an accountability culture. Redress should be sought through the appropriate attribution of responsibilities, paired with the authority and the means and tools to deliver on them. Well articulated performance criteria are needed to measure such delivery, combined with an improved performance assessment, ideally through a 360-degree feedback mechanism. Enhanced communication including by senior management, as well as the requisite training should accompany the effort.

Current Practice	*Gap*	*Recommendation*		
		Activities	***Benefits***	***Cost Assumptions***
Independent audit committees (4.3.2.1)				
In late 2004, new terms of reference were issued for the Oversight Committee ("OC"). Membership and participation were revised under these ToR. The IGO role was also amended. There is one independent expert on the Oversight Committee. Members meet on a quarterly basis, corresponding to Best Practice. The next OC meeting (8 June 2006) will address how recommendations should be followed up.	Based on best principle of having an independent Audit Committee, there is a current lack of independent membership on UNHCR's Oversight Committee. Currently, there is only one independent member OC (a former UNHCR staff member).	**Continue to strengthen the Oversight Committee.** Strengthening of this committee entails: - Review oversight committee membership. (It is noted that the ToR of the OC were reviewed recently and this was the object of a recent memo); - Increase the number of independent OC members; - Continue to meet quarterly; - Continue to prioritize agenda items according to risk areas; and - Based on Best Practice, UNHCR should increase independent oversight committee membership. The OC should systematically follow up on recommendations and allocate responsibility for actions required. At a minimum, this should be similar to the process that is currently used when following up on audit (BoA) recommendations regarding the accounts delivered to the Standing Committee. It is noted that the topic follow-up on recommendations will be addressed in the next Oversight Committee meeting (June 2006).	Enhanced financial oversight An independent committee is pivotal to ensure timely and objective follow-up of issues. An independent committee helps to ensure that all agenda items are given an adequate and unbiased degree of importance.	Four experts are required to be involved 2 weeks per year at a cost of about $12,000 per expert. UNHCR would cover travel and DSA for each expert.

Current Practice	*Gap*	*Recommendation*		
		Activities	*Benefits*	*Cost Assumptions*
Enterprise-wide risk management (4.3.1.1)				
UNHCR is one of few UN entities which have taken the initiative of developing an Organizational Risk Management Framework. Efforts are currently underway.	UNHCR is moving toward systematic organizational risk management, but does not yet have such a system in place. Risk management is not yet a formal part of its strategic decision-making. It has assessed and prioritized key risks by impact and probability and has formulated a pilot for its Asia Bureau which is currently in progress. Furthermore, action has been taken to incorporate the application of risk opportunities and mitigation analysis at all levels within the result-based strategic planning framework of the organization. OIOS, as UNHCR's internal audit service, will reference the risk areas as an indicator for the prioritization of audits. OIOS will also utilize and build further on the risk methodology in its audit activities.	**Continue to develop and implement a systematic organizational risk management (RM) programme.** Such development and implementation entails: - Formulate a high-level design of the framework by conducting, for example, a cost-benefit analysis to determine an effective level of robustness of the future-state RM framework; - Adapt the RM framework to the entity; - Conduct pilots by implementing a set of RM strategies in a limited number of support operations functions and field offices utilizing instruments already in place. (e.g. Asia Bureau); - Develop and create policies to embed RM into strategy setting of the entity; - Design and create processes and procedures through the design of risk management and measurement methodology; - Link through existing systems and technology to systematically capture the entity's risks; - Report on the entity's risks internally (to executive management through the Oversight Committee) and externally (to stakeholders via the UNHCR Global Report); - Develop a solid communication	As strategic planning integrates risk management, proper compensation of the risks being assumed and adequate optimization of resource use are ensured. The governing body and executive managers confidently make informed decisions regarding risk/reward tradeoffs related to existing programmes and new opportunities. Risks are communicated internally and externally facilitating transparency within the entity and across donor community. Systematic and consistent identification, assessment, and management of risks across UNHCR. Risks are explicitly considered when evaluating new programmes/ projects/ budget allocations both on a standalone and country-wide basis, which helps in prioritizing initiatives.	No cost impact as the initial phases of an RM framework has been undertaken and a pilot is underway. To further improve on the current structure and to make best use of the information contained, the procedural suggestions in the recommendations should be taken into consideration.

Current Practice	Gap	Recommendation		
		Activities	**Benefits**	**Cost Assumptions**
		strategy through strong tone from the top; and - A Risk Committee should be formed and be made up of main risk owners from all departments who would address integrated risk management for cross-UNHCR divisions and departments.		

5. ICAO

Summary of gaps and recommendations for ICAO – Oversight

The ICAO Council's Finance Committee consists of 17 members. It exercises oversight of external audit and inspections, and receives a summary of internal audit reports. While the Finance Committee's Terms of Reference are broad enough to include oversight of internal audit, best practice suggests the establishment of a dedicated Audit Committee, smaller than the current Finance Committee, and based on independent auditor experts.

Given that, as a specialized agency, ICAO has its own governance structure with an Assembly of Member States comparable to the UN General Assembly, the terms of reference of the proposed UN Independent Audit Advisory Committee (IAAC) should be generally applicable. It is therefore recommended that ICAO management and Council consider the model Terms of Reference given in this report (see Appendix 3), adapt them to ICAO, and set up a separate, independent Audit Committee. ICAO should consider the UN best practices standard of rotation of external auditors. (ICAO has historically utilized the services of the Canadian Auditor General.)

ICAO-wide risk management is already planned by ICAO for the upcoming triennial budget period, while programme-level pilots are in the process of being implemented. The next triennial budget (2008-2010) will call for annual monitoring of the central risk monitoring function and the ICAO-wide risk management process.

The risk management effort should be fully supported and if possible accelerated, both with programme-level pilots and with increased attention to central risk management above the programme level. Risk should be identified, analysed and measured, and processes and methodologies should be developed for this purpose. Strong support from the top should be emphasised by a solid communication policy, internally and externally.

Current Practice	*Gap*	*Recommendation*		
		Activities	***Benefits***	***Costs Assumptions***
Independent Audit Committees (4.3.2.1)				
In accordance with its ToR, ICAO's Finance Committee, which has 17 members, exercises oversight of external audit and inspections. A summary of the internal audit reports is shared with the Finance Committee and the Council. The external auditors receive all internal audit reports. The ToR of the Finance Committee is sufficiently broad to include internal audit. ICAO is not yet at the stage of having the Council sign a SIC for the Assembly. ICAO's management views the idea of a smaller, separate audit committee, with independent auditor experts and with an expanded scope of internal audit, as worth considering. Indeed, there is sentiment in ICAO management that the eventual goal for the specialized agencies is a SOX-equivalent audit committee.	A dedicated audit committee, smaller than the Finance Committee, based on independent auditor experts, is currently lacking.	The ICAO Council and management should examine the Governance and Oversight Review model audit committee/IAAC ToR and consider adapting it to ICAO.	Increased independence and expertise by virtue of participation of external audit experts Increased scope and accountability and focus on audit issues (see model ToR in Appendix 3 of this report)	The independent audit committee will have 5 members. There will be quarterly meetings, with each meeting lasting 4 days. In addition, the independent audit committee will have a secretariat comprised of 1 junior professional who will work full time supporting the independent audit committee. The independent audit committee will, in addition to incurring direct costs, potentially impose costs elsewhere in the organisation; however, these are assumed to be negligible.
Enterprise-wide risk management (4.3.1.1)				
In their 2004 performance audit, ICAO's external auditors called for improvements in Technical Cooperation Bureau project justification documentation, including risk analysis. ICAO is proceeding in a "step-by-step" manner to generally upgrade its risk management framework.	Centralized, enterprise-wide risk management/ reporting are in the planning stages.	**Continue to develop and implement a systematic enterprise risk management (ERM) programme.** Such development and implementation entails: - Continue with the program-level risk management pilots; - Continue planning the ToR for a central risk management unit independent of program management.	Meet auditor requirements Improve management's accountability for risk management and improve the Council's oversight of the risk management process Utilize risk factors in strategy-setting Further fulfil ICAO's mandate to act as the international	Implementing ERM takes between two and three years and the average implementation costs, including IT, is about 0.03% to 0.05% of total resources available for each year of implementation. For ICAO, implementation costs for ERM are about 0.05% of total

Current Practice	Gap	Recommendation		
		Activities	Benefits	Costs Assumptions
In line with ICAO strategic priorities through 2007, risk management is currently being piloted in one program; ICAO will continue to address program-level risk management through next year. The triennial budget will call for annual monitoring of the central risk monitoring function and the ICAO-wide risk management process.		and support operations; - Develop and create policies that embed ERM into strategy setting of ICAO; - Design and create processes and procedures through a risk management and measurement methodology; - Design and build systems and technology to systematically capture ICAO's risks; - Design and report on ICAO's risks internally (to executive management and the ICAO Council) and externally (to the public via the annual report); and - Develop a solid communication strategy, and strong "tone from the top."	coordinating body for aviation safety and security Enhance public confidence via risk reporting in annual report	resources available each year of the implementation. Given the small size, ICAO would also probably either use an existing risk management tool implemented by the Secretariat or another organisation or use a manual tool to track risks. Therefore, ongoing IT support costs are negligible. Ongoing, one additional senior professional is required at 50%.

4.6 Appendix 3: Draft Terms of Reference -- Audit Committee

UN Independent Audit and Advisory Committee (IAAC) Terms of Reference

Provisional IAAC terms of reference have already been presented to the UN General Assembly (see Annex III of document A 60 568). An update to these Terms of Reference is given in this Appendix to bring them further into line with an even broader assessment of audit committee best practice in both public and private sectors. Key areas of further comparison of the UN's IAAC Terms of Reference have been with the following sources:

- Asian Development Bank
- UK guidance from Her Majesty's Treasury
- European Commission Audit Progress Committee
- PricewaterhouseCoopers report (2nd edition) 'Audit Committees – Good practices for meeting market expectations' based on a study of private sector audit committee arrangements from over 40 countries.

Updated provisional terms of reference for the Independent Audit Advisory Committee (IAAC) to the United Nations

A. Role

1. The Independent Audit Advisory Committee serves in an expert advisory capacity to the General Assembly. It aims to help the General Assembly better exercise governance responsibilities with respect to the various operations of the United Nations.[1]

B. Composition and selection of expert members

2. The Committee shall comprise of ten members, all of whom are independent of the United Nations Secretariat and the Governments of Member States. The criteria for independence are set out in annex 1 to the present appendix. Candidate members are nominated by the Secretary-General, and are subject to the approval of the General Assembly. The appointed Committee members shall select their own Chairperson from within appointed Committee members. Every 3 years, one half of the Committee membership (i.e. 5 members) will retire and 5 new members will be appointed.

Qualifications of expert members

3. All of the members should have recent and relevant financial experience. The criteria for financial experience are set out in annex 2 to the present appendix. Committee membership should reflect a broad geographical distribution and include a balance of representation with public and private sector experience.

C. Meetings and reporting

4. The Committee will meet in closed session at least four times per year. The quorum will consist of any seven out of ten members of the Committee. Invitees to the Committee meetings would be limited to those who are familiar with, or responsible for, the topics on the agenda. Such invitees may include representatives of the United Nations Board of Auditors and the Under-Secretary-General for Internal Oversight Services. Other members of senior management may attend Committee meetings by special invitation.

5. The Committee will seek to work on the basis of consensus and will maintain its own record of meetings. In the event that consensus is not reached differences will be noted and appended to the minutes. The Chairman will regularly brief the Secretary-General on the Committee's findings and raise immediately any matter of significant financial impact.

6. The Committee shall prepare an annual report to the General Assembly that describes the work of the Committee in discharging its responsibilities. The Committee chairman shall attend hearings to respond to any questions of Member States on the Committee's activities.

[1] At present, it is proposed that this Committee will provide advisory services with respect to the operations of the United Nations, but not its funds and programmes.

7. The Committee shall provide an annual performance evaluation of its work to the General Assembly. The Committee shall review periodically the adequacy of these terms of reference and recommend where necessary proposed changes to the General Assembly for approval.

D. Functions

8. The Committee directly assists the General Assembly in fulfilling governance and oversight responsibilities. Its primary functions are:

a. To understand the systems of internal control and risk management and oversee compliance with those systems in line with policies and regulations, with particular emphasis on the financial systems and information;

b. To review any material weaknesses and monitor compliance with corrective action plans;

c. To provide comment and input to the workplan of the United Nations Board of Auditors;[2]

d. To discuss with management and the United Nations Board of Auditors the audited financial statements and monitor the integrity of the financial statements and other such information required by members;

e. To consider the effectiveness and objectivity of the external audit process;

f. To review and approve the audit work plan of the Office of Internal Oversight Services (OIOS), including those cross-agency activities for which OIOS is either solely or jointly responsible;

g. To review the budget of the OIOS and make recommendations to the General Assembly for approval of its budget;

h. To assess the work of the OIOS, and the effectiveness and objectivity of the internal audit process, including those cross-agency activities for which the OIOS is either solely or jointly responsible;

i. To advise the General Assembly on such recommendations as the Secretary-General may make for the appointment of an Under-Secretary-General for Internal Oversight Services;

j. To ensure that the United Nations Board of Auditors and the OIOS do not encounter any difficulties in the course of their audits, such as any restrictions on the scope of its work, access to required information or insufficient resources to fully carry out its work. The Committee shall assist in resolving such restrictions and report thereon to the Secretary-General and the General Assembly.

E. Mode of operation

9. The Committee will conduct its business around a standing agenda of items and reports drawn from the terms of reference, for example an updated risk register and internal and external audit progress reports. The committee shall conduct its activities as follows:

[2] Noting that the United Nations Board of Auditors is independent and is solely responsible for the conduct of its audits.

Audit process

a. Provide an open avenue of communication between the Committee, the United Nations Board of Auditors, the OIOS and management, meeting separately with these parties at least annually;

b. Keep under review the scope and results of the audit of the United Nations Board of Auditors and OIOS, their cost-effectiveness and report periodically to the General Assembly on Committee findings;

c. Examine the single audit principle so as to ensure full compliance therewith;

d. Maintain free access to the chair of the audit committee for both the heads of external and internal audit

e. On an exceptional basis, respond to requests from the governing body to convene to discuss particular matters.

External auditors

f. Put in place a framework and monitor engagements for the provision of non-audit services by the external auditor, including seeking an annual independence confirmation from the auditor, for both audit and non-audit related work.

g. Determine the qualifications and expertise criteria for the selection of candidates to the United Nations Board of Auditors and advise on the extent to which candidates meet those requirements prior to election to the United Nations Board of Auditors;

h. Make recommendations on the remuneration to be paid to the United Nations Board of Auditors;

i. Obtain and review an annual formal activity report from the United Nations Board of Auditors that includes information on its internal quality assurance procedures;

j. Review with the Controller, the Under-Secretary-General for Management and the United Nations Board of Auditors the scope and results of the external audit and any significant findings reported in management letters;

Internal auditors

k. Ensure that OIOS is adequately resourced and continues to have appropriate standing within the United Nations and keep under review its independence and objectivity;

l. Review and make recommendations to approve changes to OIOS functions, including:

m. Purpose, authority and organizational reporting lines; and

n. Annual audit plan, budget and staffing;

o. Consider with the United Nations Board of Auditors and the Under-Secretary-General for Internal Oversight Services the internal audit programme and any significant findings, including fraud, illegal acts, deficiencies in internal control or similar issues and review management's responsiveness to the auditors' findings and recommendations;

p. Monitor and assess the role and effectiveness of the Under-Secretary-General for Internal Oversight Services and the OIOS function;

q. Advise the General Assembly on important issues arising from the annual report of the OIOS;

r. With respect to the OIOS' role in the coordination of cross-agency activities for which the Secretary-General is responsible, the Committee shall be authorised to request inputs from all the oversight activities involved within the cross-agency activities to assist in the performance of its functions;

Internal control and risk management

s. Review the United Nations system of internal control, including financial, operational, compliance controls and evaluate the effectiveness of risk management;

t. Review the risk management procedures together with OIOS and the United Nations Board of Auditors and executive management;

u. Ensure that OIOS is applying sufficient resources to areas of material concern and of high risk to the Organization and that the OIOS workplan takes into consideration of other important oversight trends;

v. Ensure financial system contingency plans are robust in the event of failure, fraud or misuse.

Financial reporting

w. Monitor the integrity of the financial statements on an annual or biennial basis together with the internal controls of the United Nations;

x. Evaluate changes in accounting principles to determine the appropriateness of accounting principles and financial disclosure practices;

General issues

y. Request the necessary management information and reports, which must not be unreasonably withheld, to conduct its work in a timely and efficient manner.

z. Review the coverage of the respective oversight bodies to assure Member States that there are no persistent gaps and inconsistencies;

aa. Retain as appropriate independent professional advice in order to follow up on any matter brought to its attention, within the scope of its duties, and while observing the mandates of the United Nations Board of Auditors and the OIOS;

bb. Ensure that the United Nations has adequate arrangements for employees to raise concerns in confidence about possible improprieties relating to accounting, internal accounting controls or auditing matters, as well as for confidential submissions by employees of concerns regarding questionable accounting or auditing matters;

cc. Review and update as necessary its terms of reference at least every three years, recommending any changes to the General Assembly and to evaluate its own performance on a regular basis. These terms of reference will then be published.

F. Terms and conditions of service

10. Terms and conditions of service of members of the Committee will be comparable with those of the regular members of the Advisory Committee on Administrative and Budgetary Questions and the International Civil Service Commission. Due to their independent status, members will be remunerated by the United Nations for their time in fulfilling their role on the IAAC. The terms of service will be term limited to maximum six-year term.

G. Secretariat support

11. The Committee shall be supported by a Secretariat.

Annex 1

Criteria for defining the independence of members of the IAAC

1. For a candidate committee member to be considered independent she/he may not have any material relationship[3] with the United Nations, either as an executive officer or significant shareholder of a company that has a relationship with the United Nations, its funds, programmes and specialized agencies.

2. In addition a candidate will not be considered independent, if she/he:

(a) Is or has been an employee of the United Nations within the last three years;

(b) is or has been a member of a governing or oversight body of any entity within the United Nations System within the last three years;

(c) Is or has been a member of the Government of a Member State within the last three years;[4]

(d) Has an immediate family member[5] who is or has been a senior official[6] of the United Nations within the last three years;

(e) Has an immediate family member who is or has been a senior member of the Government of a Member State within the last three years;

(f) Has received or has an immediate family member who has received during any 12-month period within the last three years any compensation from the United Nations (other than committee fees);

(g) Or an immediate family member is or has been within the last three years employed as an executive officer of a company where any of the United Nations present senior management served at the same time on that company's compensation committee;

(h) Is a current employee of a company that has made payments to or received payments from the United Nations in any of the last three fiscal years in excess of the lesser of $1 million or 2 per cent of the consolidated revenues of the company;

(i) Has an immediate family member who is a current executive officer of a company that has made payments to or received payments from the United Nations in any of the last three fiscal years in excess of the lesser of $1 million or 2 per cent of the consolidated revenues of the company;

(j) Holds any other Board mandates or Member State Government appointed position that might infringe on her/his independence;

(k) Held an interlocking directorship over the past three years between the companies related to the candidate and the United Nations;

(l) Has entered into or accepted directly or indirectly any consulting, advisory or other compensatory fees from the United Nations other than in her/his capacity as a committee member (compensation for committee services).

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[3] "Material relationship" meaning: United Nations accounts for more than 2 per cent of the candidate's income, or the candidate's company sales or purchases of products and/or services, during the preceding three years.

[4] Former national civil servants are not included within this restriction.

[5] Immediate family member meaning: spouse, parents, children, siblings, mothers-in-law, fathers-in-law, sons-in-law, daughters-in-law, brothers-in-law, sisters-in-law and anyone (other than domestic employees) who shares the candidate's home.

[6] Meaning any position at the ASG level or higher.

Annex 2

Criteria for defining the financial experience of members of the IAAC

1. The committee would consist of ten individuals who all have recent and relevant financial experience and expertise as described in section 3 below. At least one member should be a qualified accountant or auditor.

2. Committee membership should include a balance of representation with public and private sector experience, noting the independence requirements articulated in annex 1 to the present report.

3. All candidates for Committee membership must have integrity, objectivity and discipline and have held senior positions in the areas covered by the criteria set out below. The Secretary-General will nominate such individuals who each have expertise in at least 3 of these following criteria:

- Experience in preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues within the United Nation's financial statements;
- Prior membership of an audit committee of a private corporation or public sector body
- Proficiency in internal controls and procedures for financial reporting
- The setting or compliance with international internal or external audit standards
- The setting or compliance with international accounting standards

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United Nations

Comprehensive Review of Governance and Oversight within the United Nations, Funds, Programmes and Specialized Agencies

Volume V
Review of Office of Internal Oversight Services ("OIOS")

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Executive Summary

5.1 Conclusions

1. All parties that participated in this review expressed a desire for a stronger OIOS.

2. The OIOS is not able to function effectively under its current mandate since the role of internal and external oversight are mixed. The mandate for the OIOS encumbers the internal audit activity with other activities that have served to limit its effectiveness.

3. A clear agreement and sponsorship of the OIOS' role is needed between the governing body, management throughout the UN system and the OIOS.

4. Significant change is needed to strengthen the way in which the OIOS is structured, operates and reports within the broader framework of oversight within the United Nations.

5. The review provides recommendations to strengthen and focus the OIOS on essential internal audit matters, whilst enhancing measures to improve their operational independence and refocus their audit related services. It also provides recommendations to improve the working relationship and processes between the OIOS and management. In addition, some of the recommendations relate to actions that should be taken by programme and Secretariat management. Action will be required by the OIOS, programme management and the Secretariat if the oversight function is to be strengthened.

Recommendations

1. The responsibilities of management and of the OIOS should be re-defined:

    a. Management should acknowledge its responsibility for setting the risk tolerance of the organisation, regularly reporting this to the governing body. Management should also own the assessment of risk and the establishment of the proper controls to manage this risk in accordance with its tolerance limits.

    b. The OIOS should focus on internal auditing. This responsibility should primarily be to provide assurance to management about the data used in its assessment of risk and the design and operation of controls. It should not include deciding which risks are acceptable or operating the controls. OIOS' performance should be measured by the effect it has on helping the organisation to improve controls and manage risk.

    c. The OIOS should not be responsible for monitoring programmes, performing evaluations or providing consulting services. These should be undertaken by programme managers and by the Department of Management.

    d. The OIOS should not perform investigations. This function should operate as a separate, objective activity under the Office of Legal Affairs.

    e. Since the re-constituted group will be focused on un-encumbered internal auditing, the OIOS should be re-named the 'Office of Internal Audit Services'.

    Recommendation 1a is discussed further in section 5.5.2. The other recommendations are discussed further in section 5.5.3.

2. The independence of the OIOS needs to be strengthened.

   a. The General Assembly should define clearly the organisations for which the OIOS should perform internal audit services.

   b. Within these organisations, there should be no barrier to the OIOS conducting its work and gaining access to people and records.

   c. The budget for the OIOS should be based on a proposed workplan based on an assessment of risk. Following discussion with the executive management sponsor, the budget and summary of the risk assessment and strategic and operational plans should be presented to the Independent Audit Advisory Committee (IAAC). The OIOS should not be involved in discussions about the allocation of this budget to individual activities.

   d. The OIOS should retain the sole control over the standards and decisions around hiring, promoting and terminating its personnel.

   e. Following due process, the OIOS' reports should be made directly, and without interference, to executive management and to the IAAC.

   f. The OIOS should have free and open access to the IAAC to discuss any issues without the presence of any level of management.

   g. Since transparency is an important pillar of establishing independence, internal audit reports should continue to be available to member states on request to the IAAC, once the professional process for issuing reports to the IAAC has been completed.

   These recommendations are discussed further in section 5.5.1.

3. The OIOS needs effective sponsorship to operate within the organisation.

   a. The OIOS should report administratively to the Secretary-General who may delegate the day-to-day function to an executive body that possesses suitable authority. This executive body may be the Deputy-Secretary-General or an executive committee chaired by the Deputy-Secretary-General but should not be delegated further.

   b. The OIOS should present its plans and budgets to this executive body and should take issues such as scope management or disputes over significant matters to this body in the first instance. This body should assist the OIOS to operate within the organisation and support its mandate. If the OIOS feels that this body is failing in this duty, it should discuss this with the IAAC.

   These recommendations are discussed further in section 5.5.1.

4. There should be proper oversight of the OIOS.

   a. Oversight of the OIOS should be the responsibility of the IAAC and this role should be properly reflected in appropriate Terms of Reference ("ToR") of the IAAC.

   b. The IAAC's ToR should limit membership to individuals with the experience and professional qualifications to provide guidance on internal audit matters and who can be plainly independent of the United Nations organisations and member states.

   These recommendations are discussed further in section 5.5.3.

5. The issuance process for reports should be changed and clarified. In particular:

   a. The OIOS should share drafts of all observations and recommendations with management of the activity being audited and management should provide comments in writing within a specific time frame.

b. The decision of which matters are significant to be reported should rest with the Head of the OIOS who will exercise professional judgment to ensure that all matters of significance are reported.

c. Reports should not be issued before the work is complete, including all quality assurance procedures and a process to obtain management's comments.

d. Final written reports, after receiving management's comments, should be issued to the executive management of the function being audited for the purpose of assisting management with setting the appropriate controls in place.

e. These final written reports should be issued to the IAAC which should be responsible on behalf of the General Assembly for examining the reports and assessing the work of the OIOS.

f. The IAAC should advise the General Assembly on the significant issues raised and on overall progress of the internal audit activity.

These recommendations are discussed further in section 5.5.7

6. The term limit imposed on the Head of the OIOS should be revisited. Consideration should be given to either:

   a. A non-renewable term limit of substantially longer period (eg 7-10 years), or

   b. A term of 5-7 years in duration renewable one time only.

This recommendation is discussed further in section 5.5.4

7. The working practices and staffing of the OIOS should be strengthened.

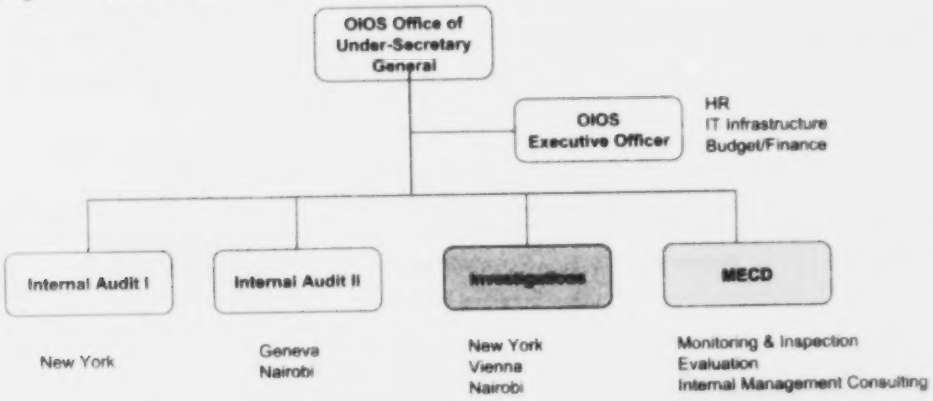
   a. A professional practices group should be established within the OIOS.

   b. An enhanced set of working practices should be established.

   c. Staff skills should be assessed and a programme put in place to obtain additional resources for missing skills, including information technology.

These recommendations are discussed further in section 5.5.5.

Current Organization of the OIOS:

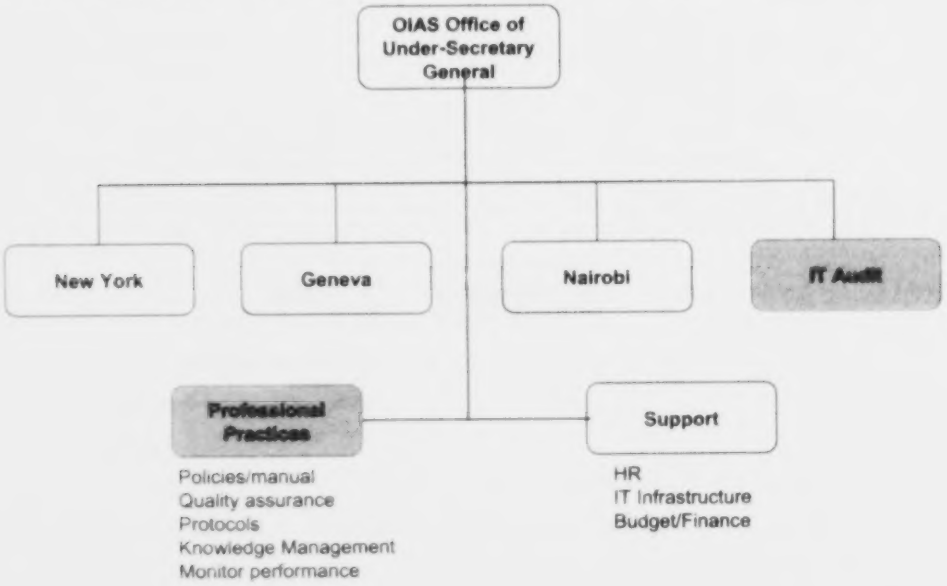


Proposed Changes

To be moved to office of Legal Affairs

To be moved to programme and Secretariat management functions

Proposed Organization of the Office of Internal Audit Services ("OIAS"):



Proposed new under the restructured OIAS

Observations and recommendations

5.2 The OIOS' history and structure and overview of the environment in which the OIOS operates currently.

5.2.1 Formation of the OIOS

6. The OIOS was established in 1994 as a result of General Assembly resolution 48/218 B. This resolution was made to enhance the effectiveness of internal oversight within the United Nations as a result of the "increased importance, cost and complexity of the United Nations activities."[1]

7. This was in direct response to the criticisms expressed by some member states over the adequacy of the internal oversight mechanisms of the United Nations. In August 1993, the Secretary-General had established an Office for Inspections and Investigations but certain member states viewed this as having inadequate authority and autonomy. The newly created OIOS assumed the responsibilities of this Office.

8. Prior to this date, internal and external oversight mechanisms had been initiated within the United Nations, some with mandates established by the General Assembly. For the most part, these other mechanisms remain intact; in particular, the Panel of External Auditors of the United Nations, the Board of Auditors, the Joint Inspection Unit ("JIU") and several internal oversight functions within individual funds, programmes and specialized agencies.

9. Internal audit, evaluations, monitoring, inspections and management advisory services already existing within the United Nations Secretariat were transferred into the OIOS at its inception and, as a result, the Secretariat ceased conducting these functions.

10. The mandate granted to the OIOS was focused specifically on internal oversight, as opposed to external oversight. Internal oversight is a management function which, though objective in nature and independent of the operations which it reviews, reports to management for the purpose of providing assurance to management on whether its assessment of risk and reliance on controls is appropriate. Internal oversight is one essential component of management's internal control infrastructure.

11. External oversight is an activity, reporting on behalf of the ownership of an organisation against standards that are set outside of the organisation, for example, generally accepted auditing standards ("GAAS"). Both internal and external oversight provide value to management and to the ownership of an organisation but internal oversight operates within the organisation and, usually, closer to the operations. According to its mandate, the purpose of the OIOS is "to assist the Secretary-General in fulfilling his internal oversight responsibilities in respect of the resources and staff of the Organisation".[2] Accordingly, the OIOS operates only within the UN activities that fall under the Secretary-General's authority which are:

- The UN secretariat in New York, Geneva, Vienna and Nairobi
- The five regional commissions
- Peacekeeping missions and humanitarian operations, and

[1] General Assembly resolution 48/218 B
[2] General Assembly resolution 48/218 B

- Funds and programmes administered separately under the authority of the Secretary-General.

12. In most cases, the Funds and Programmes that are administered separately under the authority of the Secretary-General already had internal oversight functions in place and these continue to operate. Examples are the Office of Internal Audit at UNICEF (which provides internal audit, investigation and inspection services), the Office for Audit and Performance Review (which provides internal audit, investigation and inspection services) for UNDP and the Oversight Services Division of the World Food Programme ("WFP"). In only one case (UNHCR) has an agreement been reached whereby the OIOS provides internal oversight services to these funds and programmes. As a result the OIOS does not operate within the other funds and programmes.

13. Specifically, the mandate establishing the OIOS required the OIOS to perform the following services, which are further described in section 4.3 below:

a. Monitoring

b. Internal audit

c. Inspection and evaluation, and

d. Investigation

14. The mandate also allows, but does not require, the OIOS to act in an advisory capacity to programme managers "on the effective discharge of their responsibilities, provide assistance to programme managers in implementing recommendations, ascertain that programme managers are given methodological support, and encourage self-evaluation".[3]

15. This initial mandate appears to recognize that conflicts may arise between the mandate granted to the OIOS and the mandates of other, pre-existing groups and requested the Secretary-General to report back to the General Assembly on the implementation of this mandate "as it pertains to the internal oversight functions of such funds and programmes".[4]

5.2.2 Evolution of the OIOS's mandate since 1994

16. Resolution 54/244 dated 31 January, 2000 placed some restrictions on the activities of the OIOS. In particular:

17. The OIOS "shall not propose to the General Assembly any change in the legislative decisions and mandates approved by intergovernmental legislative bodies"[5]

and

18. " institutional arrangements governing reimbursements of costs between the Office of Internal Oversight Services and United Nations funds and programmes should be made in accordance with the relevant rules and regulations of the respective funds and programmes, including decisions, as appropriate, by their legislative bodies" [6]

19. The effect of these resolutions made it clear that the OIOS was to operate within the parameters set out by the intergovernmental legislative bodies and, in particular, funds and

[3] General Assembly resolution 48/218 B
[4] General Assembly resolution 48/218 B
[5] General Assembly resolution 54/244
[6] General Assembly resolution 54/244

programmes wishing to be served by the OIOS would themselves be responsible for the funding of any OIOS' activities conducted within these funds and programmes.

20. General Assembly resolution 59/272 in 2004 did not specifically change the mandate of the OIOS but made important changes in the reporting mechanism. Specifically, the OIOS' reports were to be made available to member states on request, in addition to the existing practice of making them available to the General Assembly through the Secretary-General. This important change appears to reinforce the view of the General Assembly that the accountability of the OIOS is to the member states themselves, as opposed to the Secretary-General in his role as Chief Administrative Officer. However, it has served to further blur the distinction between internal and external oversight and reinforce management's view that this is an external oversight function, not a management tool, limiting thereby its effectiveness in providing internal oversight. As a result, there has developed a strong difference of opinion about the role of the OIOS which is in danger of failing to meet the needs of either management or the member states, who are the ultimate beneficiaries.

21. One view of the OIOS is that it is a part of management's internal control structure. In this view, it operates on behalf of management, seeking to identify important risks and assess controls as operations unfold, basing its scope on its assessment of risk. This appears to be the intent of the original mandate, setting out the OIOS as an internal oversight function. To discharge this role effectively, the OIOS needs to be close to the operations and to have strong connections with management at all levels, perhaps to the extent of being involved in discussions around planned activities. At the same time, management needs to understand and accept its own role in assessing risk, setting risk tolerance and establishing controls, looking to the OIOS to provide input, chiefly in the form of assurance, about risk and controls. In this role, the OIOS should cause change to happen through its daily interaction with management.

22. The most effective internal audit organisations are set up this way. Critically, they are sponsored by management and they report administratively to management. They have a "safety valve" to protect their independence by reporting functionally to the Board (typically through an audit committee) but they do not take detailed instruction from the Board.

23. The ability of the OIOS to be an effective part of management's internal control structure is being severely impaired by management's distrust of the OIOS. This distrust is a direct result of the combination of the investigative functions alongside the internal audit activities of the OIOS and the perceived adversarial role of OIOS.

24. An alternative view is of the OIOS as a tool for the General Assembly or member states individually. In this view, the OIOS takes its direction from the General Assembly on scope and reports to the General Assembly, giving member states visibility into the operations of the United Nations. This is a more adversarial role in that the purpose is to report on management activities to the member states. In such a role, the OIOS would cause change to happen only by going through the authority of the General Assembly. While not the original purpose of the OIOS as described in mandate 48/218 B, this role appears to have become increasingly important to the OIOS for two reasons:

- OIOS' strong view (in some cases supported by statements made by management) that management does not take appropriate ownership of its duties to set risk tolerance, understand risk and implement appropriate controls; and
- A continued poor adoption rate by management of the recommendations made by the OIOS.

25. Both factors lead the OIOS to depend ever more on its direct link to the General Assembly for its authority, which only serves to increase the distance between the OIOS and management. This is compounded by the many different types of activity that the OIOS tries to accomplish, based on its mandates.

5.2.3 Brief structure of the OIOS

26. To conduct the activities set out in its mandate, the OIOS has organized itself into divisions, with the following activities[7]:

- Internal audit division I ("IAD I"), comprising approximately 103 auditors (including a cadre of auditors "out posted" to peacekeeping missions) principally handles internal audit work for the UN secretariat in New York and peacekeeping activities;
- Internal audit division II ("IAD II"), comprising approximately 32 professional staff based in Geneva that principally handles internal audit work for the UN secretariats in Geneva, Nairobi and Vienna and certain funds and programmes, in particular the United Nations High Commission for Refugees (UNHCR);
- Investigations Division ("ID"), comprising approximately 98 professional staff based in New York that handles all investigation activities conducted by the OIOS; and
- Monitoring, Evaluation and Consulting Division ("MECD"), comprising approximately 14 professional staff composed of three sections:
  - Monitoring and Inspection section, comprising approximately 5 professional staff. The monitoring function is primarily focused on the completion of the programme performance report, which measures programme accomplishments. Inspections are usually conducted at the request of the Under-Secretary-General of the OIOS in response to programmes with indications that they are not adequately managed or that the programme may not be using its resources economically.
  - Evaluations section, comprising 3 professional staff which provides in-depth evaluations of programme outputs and activities against the programme objectives.
  - Management consulting section, comprising approximately 6 staff which provides consulting assistance including workshops and cost-benefit analyses to programme managers.

27. To support these activities, the OIOS has an office of the USG that conducts executive functions for the OIOS and an executive office comprising 12 individuals who provide support services, principally recruitment and human resource-related activities.

5.2.4 Current environment in which the OIOS operates

28. Approximately 70% of the budget for the OIOS is dedicated to peacekeeping operations. The number of peacekeeping operations has expanded in recent years. Performing internal audit, investigative or evaluative activities in a peacekeeping operation provides its own unique challenges. Peacekeeping is necessarily conducted in environments that are unusually unstructured and where normal rules of commerce may not apply. For example, it may not be possible to obtain competitively bid contracts if there are insufficient local providers willing or able to provide goods and services as a mission is being established. Operations are subject to rapid change and disruption. At the same time, management of the individual field missions has a responsibility to ensure that controls are in place and operating in these unstructured

[7] Source for description of activities: OIOS website as of April 26, 2006; resources listed as per 2006-07 budget.

environments because member states donating resources have a reasonable expectation that there be an adequate system of control to ensure those resources are not misused.

29. Similarly, in recent years the United Nations has taken on responsibilities that require the co-ordination of different funds, programmes and specialized agencies to respond to a single matter. Examples are the Oil for Food programme and the Tsunami relief operation. It is effective in these situations to take a cross-agency approach for internal oversight so that trends and issues can be identified more quickly and observations more easily and more quickly shared between agencies so that the agencies can promptly respond.

30. Inherent in this concept is that the ultimate beneficiary of oversight services within the United Nations are not the individual funds, programmes or specialized agencies themselves but the donors and perhaps even the member nations, whether donors or not, who may be recipients now, or in the future, of such support. Their interest is primarily in two respects:

- That United Nations operations meet the objectives set out for them in peacekeeping, technical cooperation or other activities (i.e. effectiveness), and,
- That United Nations operations are conducted efficiently and without waste.

5.3 Background leading up to this report and key terms of reference of this review.

31. This report on the OIOS was commissioned under terms of reference issued in November, 2005. These terms of reference are part of a broader review commissioned by the United Nations for a Comprehensive Review of Governance and Oversight of the United Nations, Funds, Programmes and Specialized Agencies (the "Governance and Oversight review"). In certain areas, the principles, observations and recommendations being made for the OIOS review relate to the broader aspect of overall governance structures for the United Nations. Therefore, certain recommendations in this report are made in line with recommendations formed in completing the Governance and Oversight review.

32. The Governance and Oversight review was commissioned in response to a request from the General Assembly arising from the 2005 World Summit "to submit an independent external evaluation of the auditing and oversight system of the United Nations, including the specialized agencies, including the roles and responsibilities of management, with due regard to the nature of the auditing and oversight bodies in question."[3] In addition, an increasing number of procurement-related issues have surfaced leading to significant growth in the number of investigations being conducted within the United Nations. Finally, based upon a reading of the resolutions of, and reports to, the General Assembly, a significant factor appears to be an increasing awareness of the lack of an effective means to ensure follow-up on recommendations together with a desire to enhance accountability in the United Nations organisation.

33. The OIOS review arises from two sources, within and outside of the OIOS. In July, 2005 Inga-Britt Ahlenius was appointed as the Under-Secretary-General (USG) for the OIOS, with a 5-year term commencing in September, 2005. Ms. Ahlenius was interested in performing an independent examination of the OIOS to assist her in setting strategy and direction for the OIOS. At the same time, the Secretary-General was responding to resolutions from the

[3] 2005 World Summit A/RES/60/1

General Assembly to review the United Nations' structures and mechanisms of governance and oversight. In particular:

34. " to examine governance, structures and accountability throughout the United Nations system" [9] and to conduct

35. "an independent external examination of the Office (OIOS)... A determination will then be made of the adequate funding level of the Office of Internal Oversight Services, the scope and nature of its activities and mechanisms for its operational independence from the Secretariat."[10]

36. This report should assist the USG in establishing a strategy while responding to the desires of the General Assembly to assess the overall structure, size and nature of operations within the OIOS in the broader context of strengthening governance and oversight mechanisms as a whole.

37. Specifically, the terms of reference call for an implementation plan for the OIOS that covers:

- The level of operational and managerial independence of the OIOS from the management of the organisation, and the appropriate oversight apparatus for the OIOS;
- The services and responsibilities to be satisfied through the OIOS, and those that should be satisfied elsewhere;
- The optimal organisational structure and adequate resource requirements;
- The source of funding, and cost-sharing mechanisms for services provided on an internal and intra-Agency basis;
- Strategies to ensure the provision of value added services through the OIOS, including programmes to maintain and update skills, keep abreast of developments within the internal audit and oversight arenas; and
- The strategy to continuously benchmark the OIOS' performance against other such providers.

5.4 General principles used in this review and approach for conducting the review

5.4.1 Approach used to conduct this review

38. The approach was conducted in five phases:

1. Planning - where the subject matter to be covered and the principles to be used in performing the assessment were defined.
2. Data collection - principally interviews and reviews of documentation to collect information on how the OIOS operates.
3. Assessment - where the information on how the OIOS operates was compared with the principles and identified resulting gaps.

[9] General Assembly resolution A/57/278.
[10] 'Implementation of decisions from the 2005 World Summit: for action by the Secretary-General', A/60/430

4. Recommendations - where recommendations were formed in response to these gaps, and
5. Reporting - input was obtained from the OIOS, from the project Steering Committee, and from others internally and externally, and the report was prepared.

The plan focused on forming a view of:

- The OIOS' placement, independence, stature and voice within the UN organisation,
- Stakeholder expectations and observations,
- The OIOS' internal administrative organisation and operations, working practices and products,
- Key points of comparison to oversight functions at other similar organisations

39. The planned approach considered both the strategic and tactical practices of the OIOS, specifically in relation to the points identified in the terms of reference for the engagement.

40. In the data-gathering phase activities included:

- Review of existing documentation to develop an understanding of the history, mandate, roles and previous assessments of the OIOS.
- Review of the OIOS' internal documentation to understand how the OIOS executes its mandate and to corroborate points that were made during interviews. Documentation made available included:
  - Recent reports to the General Assembly and other, internal management reports within the OIOS;
  - Descriptions of the annual planning and risk assessment process;
  - Peer review of IAD II performed by the Office of Internal Audit for UNICEF
  - Internal audit manual, June 2003;
  - Work papers and work product; and
  - Performance metrics maintained by the OIOS;
- Conducted 67 interviews with select:
  - Management and staff members of the OIOS,
  - UN management,
  - Member state representatives
  - Other UN oversight bodies (Board of Auditors and Joint Inspection Unit)

41. For purposes of conducting the assessment, the following activities were completed:

- By-person or by-phone surveys of specific aspects of oversight with 6 oversight organisations in order to form a comparative analysis. To do this a template was developed to use during these discussions to drive consistency of inquiries. Owing to the uniqueness of the UN organization, there is no single entity with which the OIOS can be directly and completely compared. However, organisations were specifically sought out with functions similar to those performed by OIOS: audit, investigations, inspections and evaluation. This information was collected only to provide detailed comparative data. The Steering Committee and the independent contractor engaged to perform this

review formed their own view on what constitutes best practice, based on their collective experiences and expertise.

- Use of a benchmarking tool to compare core internal audit processes for IAD I and IAD II to a database of practices of high performing internal audit functions.
- Reference to of the *International Standards for the Professional Practice of Internal Auditing* (the "Standards"), as promulgated by the Institute of Internal Auditors, as a baseline for comparative analysis of the OIOS' overall approach and structure of internal audit. The focus was the OIOS' strategic framework, including the appropriateness of the organisational structure, independence, and overall mandate. There was not, however, a Quality Assurance Review performed of IAD I or II as part of this review.
- Considered the initial concepts for the creation of the OIOS and the current environment in which the OIOS operates as noted above.
- Developed a set of over-riding principles to use in assessing the OIOS.

5.4.2 Principles used in assessing the OIOS

- These principles are based on:
  - The collection of UN statements and mandates defining the purpose for the OIOS
  - Recognized pronouncements on Governance (e.g. the King Report, 2002), and
  - Established framework principles embedded in relevant professional standards such as the International Standards for the Professional Practice of Internal Auditing.

Principles used in Assessing the OIOS
• Operational independence; free from interference in determining scope of work, completing work or reporting. • Support real, effective mechanisms for accountability, transparency and responsibility within the organisation. • Operate transparently: allow (member states) to make a meaningful analysis of the activities of internal oversight. • Support the Secretary-General in the discharge of his duties over internal controls: a management function. • Operate according to international standards and good operating practices, particularly for internal audit with regard to due professional care. • Operate in according to international standards and good operating practices, particularly for internal audit with regard to due professional care. • Support, in a properly balanced way, the oversight needs of management and relevant governing bodies (i.e. recognizing a duty to both). • Separate nature of internal and external oversight functions.

5.5 Detailed observations and recommendations

5.5.1 Independence

Principles:

42. Governance principle 6.1 developed in the Governance and Oversight review states that it is the Governing Body's ultimate responsibility to satisfy itself that there is a ***robust framework for internal controls, risk management, systems and compliance with laws, regulations and appropriate accounting standards***.

43. The Institute of Internal Auditors ("IIA")'s International Standards for the Professional Practice of Internal Auditing ("the Standards") states the following with respect to independence (emphasis added):

44. "The internal audit ***activity*** should be independent, and internal auditors should be ***objective*** in performing their work."[11]

45. Furthermore, the Standards define independence of the *activity* as comprising two elements:

- "The chief audit executive should report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities" [12], and
- "The internal audit activity should be ***free from interference*** in determining the scope of internal auditing, performing work, and communicating results."[13]

46. Fundamentally, operational independence is not based on rules or mandates but on the degree to which the oversight function is free to:

- Identify the resources it requires;
- Deploy those resources where it sees fit; and
- Report as it sees fit.

Observations:

47. The OIOS is constrained from conforming to this component of the Standards in several important ways. Failure to address the independence issues noted herein will prevent the OIOS from being able to discharge any of its assurance duties effectively. The important areas where the OIOS does not conform with this standard are:

1. Scope is limited by the mandates for the OIOS which allow it to review the UN Secretariat (including Peacekeeping operations) and, on a request basis, certain funds and programmes but only to the extent that the OIOS has completed a negotiated agreement with the fund or programme to offer services. Such negotiations include discussions on the number and level of staff and resources that will be dedicated based upon an amount of

[11] IIA Standard 1100
[12] IIA Standard 1110
[13] IIA Standard 1110.A1

funding that the individual fund or programme is able to dedicate. This mandate limits the OIOS from conducting oversight activities in two important ways:

a. It does not offer the OIOS the ability to evaluate risks and controls in joint operations that involve several UN entities, particularly those that are not covered by the OIOS' existing mandates, and

b. The negotiation process by individual funds and programmes limits the amount and nature of resources that the OIOS can deploy to that particular activity. It was reported to us that, on occasion, the amount and/or seniority of resources agreed to by the OIOS are less than what they believe are adequate for the purpose.

2. The funding structure for the OIOS limits the ability of the OIOS to determine where resources will be deployed and, hence, limits the scope of decisions by the OIOS. Funding is from three principal sources: regular budget, peacekeeping and extra-budgetary sources. Extra-budgetary resources are based upon negotiations with the auditee, discussed above. Due to the sensitivities and importance of maintaining funds for separate purposes across the UN, regular, peacekeeping and extra-budgetary resources cannot be swapped and must be used for the purpose for which they were identified. As a result, resources cannot be allocated to areas of emerging risk based on the OIOS' assessment of risk and changes in risk cannot always be responded to by the OIOS without re-negotiating individual agreements or waiting for the next biennium budget process.

   i. Regular budget and peacekeeping resources are appropriated through a budgetary process run by the Secretariat's budget offices. Neither budget is presented for review to any independent oversight body prior to submittal to the General Assembly. The inability to present a budget to an independent oversight body for review limits the operational independence of the OIOS. In addition, the OIOS resource levels for extra-budgetary activities are ultimately determined by the programme managers who are the principal auditees. The lack of any process to evaluate budget against risk-based plans and tactical plans limits the transparency that would allow stakeholders to assess the needs and performance of the OIOS over time. It also limits the ability of the Secretariat's budget office to assess the appropriate amount of budget.

   ii. Funds provided to the OIOS through the regular budget have grown from $15.1 million in biennium 1996-97 to $24.3 million in biennium 2004-2005. Growth has been in excess of 11% each biennium except for 2000-2001 (5%). Posts funded by the regular budget, however, have remained relatively stable throughout this period at approximately 80-85 posts.

   iii. A formula of one internal audit resource per $100 million annual budget exists for Peacekeeping missions. No formula exists for the remainder of internal audit resources or evaluation or consultative resources. The Investigations Division uses case load as the basis for a formula for resources. This assumes a required 340 hours per case with investigators able to complete 6-8 cases per year. The case back-log is reported to be several hundred. No tactical plan is presented along with the budget to support budget requests.

3. Fund accounting is an important component within the United Nations system because of the principle that separately-funded activities should neither be advantaged nor burdened by allocations of cost that benefit activities other than those providing the funding. This is a fairness issue. At the same time, functions that cut across different activities need to be funded in a simple manner to avoid excessive cost of administration. These principles of

fairness and simplicity are in conflict when it comes to the funding arrangements for the OIOS. In addition to consuming management time and effort, overly complex funding arrangements limit the flexibility of the OIOS to move resources from one activity to another to respond to changes in risk. This is one of the limitations in providing the OIOS with operational independence. The OIOS reports 12 different funding sources in addition to the regular budget, which essentially represents 12 different negotiations on scope and resources.

4. There is currently no executive management body within the system to which the OIOS can turn for effective support in dealing with issues that may arise. For example, there are instances where auditees will try to manage the scope of work by placing demands upon the nature, timing or extent of audit procedures or the environment in which the auditors must operate. When this rises to a level above normal accommodations that need to be agreed between auditor and auditee, the OIOS has no authoritative management body that is tasked with dealing with these issues.

5. The Investigation Division ("ID") operates under the Uniform Guidelines for Investigations, which were endorsed at the 4th Conference of International Investigators in 2003. These guidelines charge all international investigators to "operate with objectivity and independence."

6. ID's budget is allocated by a funding stream that includes the general budget, peacekeeping budget, and a special funding from the war crimes tribunal budget. A fourth funding stream has been created by the monies reimbursed for funds and programmes cases investigated by ID. These monies are deposited into a separate fund account for future use for funds and programmes and not placed back into the general fund from where they were taken.

7. The OIOS' reports are issued to management and, in certain cases, to the General Assembly[14]. Those reports that are issued to the General Assembly are subject to separate commentary by the Secretary-General. Reports are also available to the member states upon request.

Recommendations:

1. **Global governance decisions:**

   a. **The General Assembly should clearly define those United Nations organisations for which the OIOS has responsibility to provide internal audit services. These should include:**

      i. **all *organisations* that currently do not have a separate internal audit function, and**

      ii. **all *operations* that involve more than one fund, programme or other UN activity under the authority of the General Assembly ("cross-agency activity"). The OIOS should be entitled to place reliance upon or co-ordinate with other internal audit and oversight activities in carrying out this work. The participation of any United Nations organisation in a cross-agency activity for which the Secretary General is responsible should be conditional upon this.**

   b. **Within responsibilities set out under (a) above, there should be no barrier to the OIOS conducting its work and gaining access to people and records.**

[14] See section on 'Reporting and Communication' for additional detail on this point.

c. The OIOS' reporting relationship should be changed by the General Assembly to clarify and strengthen its reporting relationship to management and to provide for specific oversight of the OIOS by an independent body[15]. This should be designed to reinforce management's role in establishing controls and in sponsoring the OIOS as well as to provide for the independence of the activity following the IIA Standards. This should be accomplished as follows:

i. An independent oversight body should be granted oversight responsibility for the OIOS. This body, which should be the Independent Audit Advisory Committee ("IAAC") should provide advice to the General Assembly and should comprise members of stature in the field of governance and oversight, including internal audit. This body should provide oversight, but not management, functions for the OIOS. See also discussion in the "Governance structure" section below.

ii. The OIOS should report administratively to the Secretary-General who may delegate the day-to-day function to an executive body that possesses suitable authority and seniority within the UN system and has the capacity to sponsor the OIOS. This should not be a major auditee but may be, for example:

1. The Deputy-Secretary-General, or
2. An executive committee chaired by the Deputy-Secretary-General.

2. Resource allocation:

a. The United Nations should separate the funding of the OIOS from the allocation of its cost. Internal oversight is a function the size of which should be based on the degree of risk and management's tolerance for risk. This should be determined by management and presented to the IAAC and the General Assembly, together with a single budget for the OIOS.

While risk and cost may vary between UN activities, there will always be some degree of unknown risk for which the UN should make provision. It is never possible to estimate with precision where this risk will fall and, therefore, the UN will always need provision to allocate additional oversight efforts or to change the relative amount of oversight between functions. This report recommends that the OIOS work with management to prepare a budget for the OIOS, based on the degree of risk in the activities that the OIOS has responsibility for and with some provision for unknown risk. This budget should be presented by the Head of the OIOS to the IAAC as the oversight body acting on behalf of the General Assembly, and then for approval to the General Assembly with advice from the IAAC.

Once a budget has been approved, cost can be allocated by the Department of Management based on whatever formula best reflects the funding requirements of the member states. However, the OIOS should *not* be involved in any way in this discussion and the cost allocation should *not* be related in any way to the ability to perform any audit. Only this approach, divorcing the cost accounting from the funding of the OIOS, will fully support the independence of the function.

If this cannot be accomplished within the fund accounting system, then this report recommends fewer, separate funding arrangements with specific formulae for the allocation of cost, as follows:

[15] See also discussion below on environment in which OIOS operates, Chapter 2

- A single regular-budget allocation that covers all the activities of the United Nations Secretariat but does not allocate within Secretariat activities.
- A single peacekeeping budget allocation that covers all peacekeeping activities but does not allocate between peacekeeping missions.
- A budget allocation funded through the overhead rate applied to all other funds, if the OIOS deems the risk profile of a particular activity requires additional attention.

This compromise would concentrate resources in sufficient strength to allow a reasonable degree of operational independence by allowing the OIOS a high degree of responsibility for determining where to spend its oversight efforts. While it would not be optimal for the purpose of maintaining the independence of the OIOS it would present a balance between the concepts of fairness and simplicity. It would require member states to accept that some level of detailed allocation is counter-productive once a sufficient level of oversight is applied in total.

b. The OIOS budget should include resources sufficient for:

   i. Professional and support staff

   ii. Operational support (including training, IT infrastructure and travel.)

   iii. Consultants and experts on an as needed basis for skills that may not be practical to retain full time.

   iv. Access to professional support including counsel and communications professionals, as needed.

   v. An amount of unplanned time to enable it to respond to General Assembly mandated work that arises throughout the plan period.

c. The budget should be prepared by the Head of the OIOS in discussion with executive management and presented to the executive management sponsor discussed in 1c, item ii above together with:

   i. A risk assessment that supports the audit plan. This plan should include resources set aside and available for responding to emerging issues that are not yet known and should describe what activities the OIOS does *not* plan to review.

   ii. A strategic and operational plan that supports the activities to be funded.

d. Following discussion with the executive management sponsor, the budget and summary of the risk assessment and strategic and operational plans should be presented to the IAAC. The IAAC should have access to the OIOS and to management to discuss these plans.

e. Once a budget has been agreed to and approved, the OIOS should have complete control over how this budget is spent. (If the three separate funding streams are used this should be within the constraints of the funding streams noted above). No further constraint on the deployment of resources should be applied by any body outside of the OIOS. The OIOS will be accountable for the completion of its plan and for keeping within budget to the management sponsor. The IAAC will periodically review the OIOS' assessments of risk and controls based upon its completion of the strategic and operational plans and

will receive periodic debriefs from the OIOS on its operations. In this way, the IAAC will be able to fulfil its responsibility to the General Assembly.

3. A request was made for input on the number of resources required for the OIOS to complete its mission. The number and type of resources are a function of several items including:

   i. The risk tolerance of the organisation.

   ii. The degree of reliance that the OIOS may place on the other oversight functions to cover the risk that may otherwise need to be covered by the OIOS.

   iii. The planned amount and type of work to be conducted.

   iv. The strategic priorities to be adopted by the OIOS in the near term, and

   v. The organisational structure adopted (with respect to support, legal, communications, and geographic considerations).

   These matters must all be determined before any sensible resource plan can be put forward. The priority should be completing a risk assessment, so that the OIOS can establish a baseline level of internal audit effort required. Following this, it is recommended that the OIOS conduct an exercise to compile an inventory of required skills for the OIOS and compare this with existing skills to determine what shortfalls or excesses currently exist. This proposal is discussed further in the Funding and Human Resources section below. There are then several options for filling this gap.

Reporting

4. There should be no proscription at all on the reporting practices for the OIOS beyond a requirement that the OIOS report on its plans and its progress periodically to the IAAC. The Head of the OIOS should determine, based on his or her professional judgment, the degree of reporting that is necessary in each case and the expectation should be that all significant matters be reported to the IAAC. Matters of less significance may be a matter for reporting to management and should be elevated to the IAAC if the related risk grows in significance, if the item is left unattended by management for an unacceptable period of time or as an important trend emerges over time.

5. Once the OIOS has completed its due diligence over reports, including obtaining input from management, reports should be issued without any additional input or interference. The practice of separate commentary from the Secretary-General should cease. The Secretary-General will have access to the IAAC which he may use to provide any input he feels appropriate. Since transparency is an important pillar of establishing independence, internal audit reports should continue to be available to member states who should request these through the IAAC once the professional process for issuing reports to the IAAC has been completed.

6. Progress should not be measured by the number of items reported on or agreed to by management as this may lead to excessive reporting of minor items. The OIOS should be held to account for the completion of its plans and for the degree to which their efforts have helped management improve operations or manage risk. The OIOS should be free to raise issues to the IAAC whenever it is appropriate and the professional leading the OIOS will use this power with discretion and professionalism so that important items are brought to attention and not impeded by excessive minutiae.

5.5.2 Governance structure in which the OIOS operates

Principles:

48. Governance principle 1.4 states that "the *purpose* of the UN entity, its *stakeholders (such as Member States' representatives and others)*, its *tolerance* for risk and its *key performance indicators* shall be defined and reflected in the UN entity's policy statements, communications, decision making and working practices." This is a task of management.

49. Governance principle 3.1 states that " Competencies of the UN entity's Governing Body, its Committees and Executive Management shall reflect the *knowledge and skills, including specific technical knowledge and skills*, needed to fulfil the purpose of the UN entity and to implement its strategic direction. "

50. Governance principle 6.3 states that " *Each UN entity shall have a professional and competent Internal Audit* function, which shall be accountable to the UN entity's Executive Management but has the right to report independently to the UN entity's Governing Body, through the Audit Committee and shall have appropriate terms of reference or charter, which shall include a requirement for regular quality reviews."

51. As an internal oversight function, the OIOS should report administratively to a level of executive management senior enough to support the operational independence of the OIOS. [16]

52. It is management's job to set risk tolerances, to manage risk and to establish an adequate system of internal control. Management needs input from the OIOS in order to do this. Management relies upon the OIOS' objectivity in order to assess this input.

53. Governing bodies, such as an audit committee need objective input from internal audit to discharge their oversight functions effectively. Governing bodies also exercise oversight over internal audit as part of ensuring due care is being taken in the exercise of its activities.

Observations:

1. The OIOS currently reports functionally to the General Assembly of the United Nations and administratively to the Secretary-General as Chief Administrative Officer. Operational independence is in one sense assured by being accountable to the General Assembly but this is not effective due to the size and nature of the General Assembly, and by the need for specialist technical skills and knowledge to oversee the OIOS function. There is no effective executive management body to which the OIOS can appeal in matters of scope management or issues of conflict with programme management.

2. Currently, there is no effective "dual reporting" mechanism both internal and external for the OIOS. Reports are issued and made available to external bodies (General Assembly and member states, on request) but no executive body within the organisation has effective responsibility for reviewing completed reports prior to release to the General Assembly and member states or monitoring progress against plan. There is no executive body operationally supporting the OIOS in matters of scope management, issue resolution or adequacy of resources.

3. The activation of the IAAC is pending the review of its provisional terms of reference within this evaluation. The provisional terms of reference for the IAAC presents broad criteria for membership that may limit its effectiveness. Membership is open to candidates who have held "senior management or executive positions" and is not restricted to individuals with globally-recognised reputations in the field of audit and governance.

[16] IIA Standard 1110

4. The mandates of internal and external oversight are many and varied. The OIOS is one of several oversight mechanisms. Internal oversight is granted to the OIOS for the UN Secretariat and to several internal audit, investigative and inspection units for funds and programmes and UN specialized agencies. External oversight is granted to the Board of Auditors, whose remit is for the UN Secretariat, funds and programmes. The JIU has a mandate over the entire UN system including the specialized agencies. The JIU is also accountable to the General Assembly but has no other specific governing body oversight.

5. Several factors are combining to make the OIOS appear like an external oversight body in the eyes of the auditees:

   a. The OIOS' ability to report directly to the General Assembly

   b. The requirement for the OIOS reports to be made available to member states on request, and

   c. The ability of the OIOS to determine to launch investigations on the basis of internal audit findings.

   The latter has become a lightening rod issue where some auditees have come to view the OIOS as operating purely in a detective mode, rather than providing management with objective assurance as it discharges its responsibilities to assess risk, understand risk and implement controls. As a result, the risk exists that co-operation between the OIOS and the auditees will deteriorate further which will only limit the ability of management to benefit from the OIOS. The responsibility of management to assess and manage risk and the OIOS' role in providing assurance around that process has not been effectively described or adopted.

6. There are duplications of mandates and inconsistencies in standards amongst the organs of internal and external oversight. Certain of the OIOS' auditees have reported confusion over numerous consecutive audits by various oversight bodies that appear repetitive in scope. For example, the Board of Auditors has within its remit all of the organisations covered by the OIOS and considers matters of internal control in those entities, as does the OIOS. The OIOS internal audit division uses a common framework, but interpretation and application may vary widely. Finally, there are additional internal audit and other oversight functions that exist within individual funds and programmes. These are not part of the OIOS and operate under their own terms of reference established by their respective governing bodies. These have not been examined in this review.

Recommendations

1. **Management's responsibilities for setting risk tolerance, identifying, measuring and monitoring risk and for the establishment of internal controls should be clearly reinforced by the Secretary-General. Management should acknowledge this responsibility in writing to the Governing Body. The OIOS' role to provide assurance to management about data used in its assessment of risk and the design and operation of controls should be clarified in a Terms of Reference ("ToR") for the OIOS (see recommendation 4 below).**

2. **Oversight of internal audit should be performed by a suitable oversight body following the Governance Principles, namely the IAAC. This report fully endorses the decision to establish the IAAC, and recommends that its terms of reference be updated to include the following:**

   a. **A limitation on membership to individuals of suitable stature in the field of governance and audit and who can plainly be independent of influence from individual member states or from management functions within the UN, and**

b. For cross-agency activities in which the OIOS is participating, the specific ability in its terms of reference to obtain input from all the participating oversight activities. This would include the ability to review the internal audit plans and budgets of all these activities so that the IAAC can properly advise the General Assembly.

c. The IAAC should review completed OIOS reports prior to their release to the General Assembly or member states.

The exact form of the IAAC terms of reference, including recommendations for the qualification of members and nomination protocol is set forth in greater detail in Volume IV, Appendix C of this report.

3. As proposed in Section 4.1 above, the OIOS' reporting relationship should change to reflect its duty to executive management and to enable executive management to provide the sponsorship that is required.

4. The OIOS does not have a single comprehensive Terms of Reference ("ToR"). Rather its charges appear in various legislative mandates relating to the OIOS, which have evolved over time. These mandates should be consolidated into an oversight ToR that provides a current, comprehensive view of the functions, role and responsibilities of the OIOS. In particular, the ToR should include:

a. A description the OIOS' authority, scope, reporting structure and capabilities.

b. A requirement that the OIOS should review with the IAAC its performance against the ToR annually.

c. An explanation of the role the OIOS should have in providing internal audit services when different UN funds, programmes and specialized agencies combine their efforts in response to a single event. The OIOS should have the authority to co-ordinate audits which cross between different United Nations organisations which it may conduct through the use of its own resources or by co-ordinating the resources of other internal audit units within the organisations.

d. A provision to allow the OIOS to respond to requests for its services from a United Nations organisation not served by the OIOS. It should specify that the decision to support the request should only be made if the OIOS has the capability to provide this support and if the scope of work is acceptable to the professional standards adopted by the OIOS.

5. The terms of reference for internal audit functions that operate within other funds and programmes that fall under the authority of the Secretary-General should comply with the IIA's International Standards for the Professional Practice of Internal Auditing.

5.5.3 Organisation and Structure of the OIOS

Principles

54 The organisational structure within which the OIOS operates should accomplish the following:

- Support the accomplishment of the OIOS' objectives.
- Demonstrate the stature of the OIOS by setting a clear organisation structure with appropriate levels of management.

- Facilitate communication and increase contact between the OIOS and management and thereby promote increased familiarity by the OIOS staff of the operations for which it provides services.
- Promote professionalism within the OIOS
- Simplify and clarify roles, reporting relationships and communications, and
- Leverage knowledge and skills and minimise general and administrative cost.

55. Assurance activities should be performed free from any question about the objectivity of the individuals performing the work.

56. IIA standards require an on-going quality assurance function that covers a wide range of internal audit attributes and audit performance standards. Periodic internal and external assessments of the function are also required.

Observations: (Note: summary observations on the organization and structure of the OIOS for each of its current Divisions are presented here. Further detail is presented in the appendix).

1. The OIOS is organized in four divisions which operate as separate silos: two for internal audit, plus an investigations division and a monitoring, evaluation and consulting division. These are supported by an executive office and the office of the Under-Secretary-General. Each division is led by a Director level position. The combination of audit, investigation, monitoring and inspections, and evaluation activities follows the initial mandate given to the OIOS.

2. The divisional silos within the OIOS limit the effectiveness of sharing of useful data, advancement of staff and overall efficiency. The OIOS managers and staff members report low historical cooperation or communication within the OIOS' "division" leadership. Communication is reported to be ad hoc, and dependent on the practices of individual staff members. A proposal exists to improve communication and coordination through the establishment of an OIOS executive committee.

3. Internal Audit Divisions

   a. Internal audit operates two, autonomous divisions, one based in New York (IAD I) and one based in Geneva (IAD II).

   b. Internal Audit Directors of IAD I and IAD II as well as the Deputy Director position in IAD I are vacant and being filled by temporarily appointed Acting Directors and Deputies until this review is complete.

   c. There is no department-wide Quality Assurance function as contemplated by the IIA Standards. The quality review process is focused on reviewing of draft reports, rather than on the procedures and documentation that supports them. These quality reviews are performed on an ad hoc basis on audit reports prior to issuance with General Assembly reports being subject to greater attention.

4. There is no Professional Practices group within the OIOS. Benchmarking research indicated that oversight groups of the size and complexity of the OIOS typically have a group situated at head office with a department-wide mandate over quality assurance, department policy and procedures, work performance manuals and identifying and reporting best practices. Such a group ensures consistent application of approved methodologies, and drives quality in working practices and reporting.

5. Investigations Division ("ID")

   a. The investigations group has expanded rapidly within the past 18 months from approximately 20 individuals to over 110. The ID operates strictly within the UN

administrative law system. It is not part of the criminal justice system. As such it has no disciplinary or adjudicative authority. Case outcomes are reported to the programme managers, the Secretary General and to the Secretariat.

b. ID has difficulty keeping pace with the expanding case load.

c. Investigations can be launched by the OIOS based on the results of an audit. This drives distrust among management about the purpose of internal audits.

d. ID conducts investigations into a wide range of allegations, including matters related to security issues in peacekeeping missions to fraud, waste and abuse. There is little visibility into the "triage" process whereby cases that arrive in investigations are initially assessed for determining the appropriate resources and direction of the investigation.

e. Investigations and audit do not routinely share information. The lack of sharing between investigations and audit divisions limits the effectiveness of both.

f. The Investigations Division seeks to recoup its costs for each case from the organisation it is investigating. It has limited success in doing so, in part because the organisations do not have any insight into the activities that were performed and are being invoiced for.

6. Monitoring, Evaluation and Consulting Division (MECD)

a. Established in its current form in August 2001, MECD is comprised of three sections:

i. monitoring and inspection ("MIS"),

ii. evaluation, and

iii. internal management consulting (iMCS).

Each division provides a range of services to the Secretariat.

b. Monitoring and Inspections Section (MIS)

i. The MIS section is comprised of 5 professionals.

ii. The Monitoring function provides training and support for programme planning and assists the programme managers to monitor their work in a results-based framework and report on the implementation.

iii. Inspections are usually conducted at the prerogative of the USG of the OIOS, whenever there are indications that a programme is not adequately managed or executed or resources are not being economically used. Currently, there are approximately 2 inspections carried out per year.

iv. MIS is also tasked with the preparation of the biennial Programme Performance Report (PPR) that provides information on the results achieved and the delivery of outputs for the preceding periods.

c. Evaluation Section

i. The Evaluation Section conducts evaluations to assess the relevance, efficiency, effectiveness and impact of programmes. These evaluations, which are mandated by the Committee for Programme and Coordination, are intended to assist policy development, planning and managerial decision-

making at the legislative and executive level. Evaluations do not provide assurance but provide research on the accomplishment of programme goals. Evaluations use very different techniques from internal audit and may conclude positively on a programme that internal audit would conclude is not well controlled and vice versa.

ii. The Evaluation Section is within the OIOS because this positioning offers the Evaluation Section independence from programme management. OIOS' Evaluations are conducted with a view to ensuring impartiality and objectivity in the analysis and findings. These findings and recommendations are intended to provide objective and credible evaluative evidence in strategic decision-making and performance improvement.

iii. There are also approximately 14 programmes within the UN Secretariat that have assigned units that carry out internal, or self-evaluation functions. These internal, or self-evaluations are managed and conducted internally by specialised staff in assessing their own programmes. OIOS' Evaluation Section provides methodological and training support and guidance in evaluation to all UN Secretariat departments and programmes.

iv. Currently the Evaluations Section reports its findings to the Committee for Programme Co-ordination (CPC), which is responsible for planning, programming and coordination activities.

v. Evaluations Sections staff reported a lack of resource and time to develop a consistent methodological approach or knowledge management tools for evaluations.

d. Internal Management Consulting Services Section (IMCS)

i. The Internal Management Consulting Services section provides change management services within the Secretariat. The IMCS is an internal management consulting function, with six full time professionals. The main focus of this group is change management. Engagements are conducted through facilitated workshops and close client partnership and collaboration. IMCS "markets" their services, which includes the dissemination of brochures and flyers on the services they provide.

ii. Consulting and audit services present a conflict of interest, both in perception and in reality. It is possible that an internal auditor may be placed in the position of assessing OIOS consulting service work or that consulting work might be requested in anticipation of delaying or diverting a planned audit.

Recommendations:

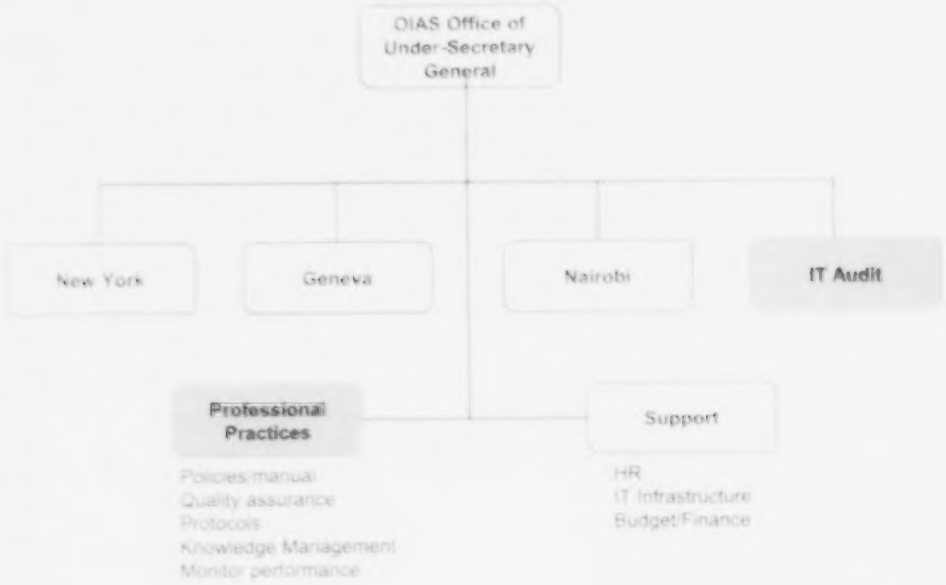
1. There are too many different activities within the OIOS, which impede the perception of its objectivity. Furthermore, the silos are reducing the effectiveness of the OIOS and probably increasing its cost.
2. The current OIOS organization is as follows:

Proposed Changes

To be moved to office of Legal Affairs

To be moved to programme and Secretariat management functions

This report recommends that the overall structure of the group should be simplified as follows:



Internal audit should be combined into a single unit, reporting to the Head of the OIOS, limiting duplication of general and administrative activities, driving consistency in approach, enhancing learning opportunities and providing a stronger link to the leadership of the OIOS. Internal audit should include IT audit capabilities. Internal audit should deliver "assurance" activities, including inspections that are requested from time to time. Internal audit should retain some capability and knowledge of evaluation processes so that the OIOS can periodically provide assurance over the evaluation process.

3. The principal responsibility for monitoring programme performance should be programme management's. The OIOS should be able to provide assurance that programme monitoring is being performed accurately by auditing the monitoring process and data used. To do this, the OIOS should have skills to assess monitoring of programmes. Accordingly, the OIOS should review the effectiveness of management's monitoring activities to provide assurance over the process. Preparing the PPR should become the responsibility of the Department of Management. The OIOS would then be in an appropriate position to provide assurance over the process used to compile the report or over the accuracy of data in the report.

4. Since evaluations are performed to inform the contributor to an activity about whether the resources being applied are having the effect intended, this activity should be performed by programme management and reported to the relevant body that sets the budget and approves the plans for the programme. An Evaluation Practices unit, to centrally assist and coordinate evaluation practices by programme managers in this regard, should be established and ideally be located within Department of Management.

The OIOS may be called upon to provide assurance over the evaluation process such as determining whether the correct data was used but should not be asked to report on whether outcomes are desirable or have been achieved.

a. Since the OIOS should be responsible for providing assurance to management over its evaluation of programs it should have access to resources that can perform this function objectively.

5. The iMCS Section should be transferred out of the OIOS, as is it inconsistent with the assurance functions of oversight. iMCS would be more appropriately positioned within the Department of Management in order to make a significant contribution to the Secretariat's management reform effort. With its existing expertise and focus on change management, iMCS would be a logical fit to support this change agenda.

6. The Investigations Division should be part of the Office of Legal Affairs, since it deals with all matters that could result in a legal action. The Investigations Division may need the support of the OIOS from time to time and the OIOS will need input from the Investigations Division to the extent that investigations relate to internal control matters. The OIOS should have access to competent investigations resources, including forensic accounting resources on an as-needed basis to support audit activities. Therefore, the leadership of the OIOS and the Investigations Division must meet regularly to share insights.

7. The process for launching an investigation as the result of audit activities should involve executive management. If the OIOS believes an audit indicates a serious matter that should be investigated, the OIOS should present its case to the executive body to which the OIOS administratively reports. Executive management should then determine whether an investigation is warranted and may call upon the separate investigations division to assist or may use external resources. If the OIOS believes that the decision to forego an investigation exposes the organisation to an unacceptable risk, it should have the ability to discuss the matter with the IAAC and its counsel. This process should be explained to management.

8. Funding for investigations should not be on a case by case basis nor should they be invoiced to the organisation being investigated. A centralised funding should be appropriated, similar to this report's proposals for the OIOS. Decisions on allocating the cost of investigative activities should rest with Department of Management.

9. The OIOS should have access to competent legal counsel to enable it to respond properly to the outcome of oversight activities that become subject to legal review for any purpose and to review reports on an as-needed basis.

10. The OIOS should establish a Professional Practice Group to drive consistency and quality. This group should:

a. support the development of a global audit methodology;

b. maintain the audit manual;

c. identify best practices;

d. own the Quality Assurance function;

e. determine the professional skills component of the skills inventory;

f. co-ordinate with the OIOS' human resources management, external and other auditors.

11. An effective means to staff the Professional Practice Group is to provide a manager and a staff who are supplemented by rotating staff from the various OIOS offices. This

serves to promote awareness of the OIOS' departmental policy and procedures and of quality assurance initiatives. It also increases communication and information sharing among the offices and elevates the stature of the Professional Practice Group.

12. The OIOS should be supported by a single support group which should provide support services to each office. While some resources may need to be based close to the main operating locations, locations should not duplicate head office support functions. Support services that may be centralised in this way include:

    a. Human resource support around hiring, promotions and terminations;

    b. Budgeting and internal accounting support;

    c. "Internal" management information system support such as obtaining and deploying internal audit tools; and

    d. Creating internal reporting for stakeholders.

13. Since the group will be focused on internal auditing, the OIOS should be re-named the 'Office of Internal Audit Services'. Further observations and recommendations relating to MECD and ID are presented for the consideration of management.

5.5.4 Human Resources

Principles

IIA Standards require that:

- "The internal audit ***activity*** should be independent, and internal auditors should be ***objective*** in performing their work."[17], and
- The chief audit executive should ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.[18]
- Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.[19]

57. To remain objective, internal auditors should be restricted from pursuing opportunities that might compromise its ability to remain objective. This limitation makes it all the more important for the OIOS to provide attractive, yet un-conflicted career paths.

Observations:

1.

2. The Under-Secretary-General for the OIOS has a single, non-renewable term of 5 years in office. The short-duration term limit for the Head of the OIOS might impact effectiveness in two ways:

    a. Given the complexity of the UN, there is a lengthy learning curve.

[17] IIA Standard 1100
[18] IIA Standard 2030
[19] IIA Standard 1200

b. There may also be a significant "lame duck" factor that may discourage co-operation by senior staff and by auditees in the latter years of the appointment.

3. There are no dedicated information and communications technology (ICT) auditors although there are three open ICT positions. Both IAD I and IAD II have limited specialised resources. A consultant has prepared an ICT risk assessment and audit plan that has not been implemented for lack of resources. Lack of ICT audit capability limits the audit coverage that is permissible and does not meet IIA standards for risk-based auditing because IAD's limited IT capabilities has a direct impact on the department's ability to conduct IT projects. Currently, projects are selected based on existing IT capabilities rather than a risk universe for IT.

4. Based on interviews with various section chiefs and auditors within IAD I, it was determined that there is no integrated approach to the audit process whereby financial and operational audits are performed in conjunction with information technology components of the same audits. Information technology projects are selected based on existing skills rather than potential identified risks. It appears that auditors with a prior IT background are not effectively and consistently leveraged during the planning and execution phases of the audit process.

5. The OIOS has its own separate review board to assess hiring and promotion decisions within the OIOS (the OIOS Review Body, or "ORB"). OIOS management reports that this process is not effective as it involves OIOS division leaders, each of whom holds the interests of staff within their division as the priority. Structuring the ORB to represent each constituency within the OIOS can hinder sound and timely HR practices because turf battles arise within the ORB. As a result, discussions in the review board are protracted and not based upon skills assessment. Candidates for promotion are presented from the review board to the Under-Secretary-General for consideration.

6. Most staff are hired on 2-year contracts, renewable as the post is renewed in each budget period. Short-duration fixed-term contracts are inherently a dis-incentive for individuals to pursue careers and build skills. If the post is not funded, the associated staff member is released. That being said, once funded, the removal of posts is rare and the linkage of individuals with posts can lead to a sense of security and become a dis-incentive to build skills.

7. OIOS employees are inhibited in movement to other departments in the Secretariat due to the OIOS' separate track hiring. Secretariat staff (other than OIOS) are under the purview of the United Nations Central Review Bodies (CRB). OIOS staff would be recruited through the ORB and not the Secretariat's CRB. The Secretariat does not recognize reciprocity between the OIOS ORB and the Secretariat CRB. Therefore, the OIOS staff are considered as external candidates along with applicants who have never worked in the UN. This limits the career options of OIOS staff.

8. UN-wide hiring practices give preference to internal candidates to the UN. Hiring practices require the OIOS to post positions for internal consideration only for the first 30 days. However, the posting is public and available to external candidates from the beginning and external candidates are not aware that there is an effective 30 day period where only internal candidates can be considered. This delay is likely to result in the loss of qualified external candidates who see no activity on their response for at least 30 days. It also gives preference based on current employment within the UN, rather than promoting the concept of competency-first. Separate OIOS hiring, promotion, transfer and termination practices are fundamental to maintaining the operational independence of the internal oversight function.

9. There is no central staff skills inventory. The lack of a career model with defined career paths (inside and outside of the OIOS) and the lack of an inventory of skills required, limits the ability of the OIOS to identify the right resources, deploy appropriately, assess performance and motivate staff to enhance their skills. It also limits the OIOS in describing what career opportunities may be available, depriving the OIOS of an effective marketing tool for its hiring needs.

10. Based on inquiries with section chiefs, training is conducted as follows:

    a. In IAD I, upon hiring, staff receives limited training during their first week focused mostly on administrative matters. Part of the training is computer based via access to the UN Intranet. In recent years resource constraints have shortened the initial training phase because staff had to be assigned to projects as quickly as possible.

    b. During their tenure with the departments, auditors receive training primarily "on the job" and via computer-based training. Classroom training has become very limited.

    c. The ID general budget does not provide a separate line item for investigative training. Only the Peacekeeping budget provides explicit funding for the initial training of Peacekeeping investigations staff.

    d. The Peacekeeping section within IAD I has other selected training initiatives. For example, a one-week training programme was developed in Brindisi, Italy focused mostly on operational aspects of peacekeeping. However, budgeting constraints have had an impact on the effectiveness of this programme. Stakeholders believe that there are still gaps between auditor skill profiles and expectations of stakeholders. For example, there is a perception among Department of Peacekeeping Operations ("DPKO") management that auditors lack training and expertise in DPKO operations including military expertise.

    e. There are no measures or benchmarks conducted by the department to assess the adequacy of training spend or alignment between training needs and training initiatives.

    f. An area where skills are significantly lacking is IT. In addition to the lack of sufficient IT auditors, those who are already on board do not have adequate support to maintain and enhance the IT skills they acquired during previous experiences. This responsibility is assumed ad hoc and has not been effective. Training of IT auditors is particularly critical to their continued effectiveness.

11. OIOS management reported that there is a lengthy process to remove underperforming staff. The process requires successive poor performance assessments in order to show the termination is the only option as the employee could not be counselled or motivated or trained to perform the job as required.

Recommendations:

1. **The OIOS should have the capability of accessing whatever skills it feels are necessary to complete its internal audit duties. The ToR for the OIOS should include the ability to access skills such as forensic accounting, specialised technical skills or access to competent legal advice as it sees fit.**

2. **The OIOS should retain its own strict policies for recruitment, deployment, promotion and termination, free from influence from outside the organisation and based solely on merit and skills.**

3. **To attract competent resources and to maintain the independence of the activity, the OIOS needs to be able to set its own specific criteria for employment within the group and to offer clear and attractive career paths. In return for this separate flexibility for hiring and promotion decisions the OIOS staff should be held to high standards of professionalism and good conduct which should be specifically set out in the written code of conduct included as a material term in their contract of employment. Termination for cause should then be at the discretion of the Head of the OIOS based on these standards.**

4. The term limit imposed on the Head of the OIOS should be revisited. Consideration should be given to either:

   a. A non-renewable term limit of substantially longer period (eg 7-10 years), or

   b. A term of 5-7 years in duration renewable one time only.

5. Provide a dedicated human resources professional for the OIOS to use for expedited hiring, developing and maintaining skills inventories, executing a sourcing plan (see below) and creating individual development plans and training programmes.

6. This human resource professional should, as a priority, complete the following:

   a. Using the annual work plans, and working with the OIOS leadership, determine the skill sets required at all levels within the OIOS. These skill sets should include areas of technical proficiency including baseline information technology skills, as well as professional capabilities such as the development of good communication skills and relationship management skills working with the auditees.

   b. Survey OIOS staff to build a comprehensive inventory of existing skill sets.

   c. Compare the required skills to the existing skill sets to identify gaps and prepare a skills strategy:

      i. Skills to be developed through training (link to a training strategy)

      ii. Skills to be acquired through hiring

      iii. Skills to be co-sourced

      iv. Skills to be borrowed from other UN entities

   d. Develop career paths for OIOS professionals. These should include restrictions on the ability of transfers-in from providing assurance services over areas they were responsible for in the prior year and restrictions on transfers-out to any UN post over which they performed assurance services in the prior year but should not include any other transfer restrictions.

   e. Appropriate recruitment restrictions should apply between the OIOS and staff employed by the Board of Auditors to perform external audit work in order to avoid staff from the Board of Auditors being put in the position of performing internal audits of areas upon which they may have previously rendered an opinion.

7. Develop an expedited hiring process, at the discretion of the OIOS management, to meet shortfalls in specifically identified technical capabilities.

8. Refine job descriptions and the recruitment process to facilitate the employment of outside experienced persons in all of the OIOS staff levels, including eliminating the requirement to consider internal candidates first.

9. Develop a deployment process based on skills determined in the skills inventory set out above. It should be understood that the OIOS provides separate services and these services should be conducted by staff with the requisite skills.

10. Promotion and performance reviews should be conducted by teams of managers who have knowledge of all the staff being reviewed, so that decisions are not based on 'fighting' for ones own team members. Promotion criteria should be clearly laid out in the skills inventory and the skills inventory should be used to assess staff. To accomplish this, it will not be possible to have all promotion decisions come through a single review board. The OIOS should hold promotion reviews for staff in each location.

The review committees should comprise an all the senior members of staff (eg P-5 and above). The committees should make recommendations to the ORB, whose sole purpose is to determine whether the process has been fairly conducted. P-5s and above should be evaluated by the executive management of the OIOS.

11. **Develop formal career counselling for the OIOS' staff members at all levels. Include development of career progression plans within the OIOS and from the OIOS to elsewhere in the UN system.**

12. **Subject to restrictions to protect objectivity of individual audit staff, facilitate transfers of the OIOS staff to the UN system by creating an "OIOS transfer track" that would achieve parity between OIOS and other UN staff. Allow the OIOS staff to be placed in meaningful roles outside of the OIOS, focusing on opportunities to improve system-side awareness and knowledge about enhancing the control environment. In all cases, recruitment should be based on capability.**

13. **Establish a programme to identify high potential staff members and provide targeted development plans and opportunities.**

14. **Establish a formal training syllabus for each staff level of the OIOS targeted at skills required for the current role and for anticipated future roles.**

5.5.5 Working Practices

Principles

58. IIA Standards require the following:

- The chief audit executive should effectively manage the internal audit activity to ensure it adds value to the organisation[20]
- The internal audit activity should evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach[21]
- Internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing and resource allocation[22].
- Internal auditors should identify, analyse, evaluate, and record sufficient information to achieve the engagement objectives[23]
- The internal audit activity's plan of engagements should be based on a risk assessment, undertaken at least annually. The input of senior management and the board should be considered in this process[24].

59. Working practices should demonstrate a commitment to professionalism and care. These practices should be designed to enable the OIOS to accomplish its strategic and operational objectives.

60. In addition, working practices should continuously be developed on the basis of best practices and applied consistently throughout the internal audit function. They should also support an

[20] IIA Standard 2000
[21] IIA standard 2100
[22] IIA standard 2200
[23] IIA standard 2200
[24] IIA Standard 2010.A1

efficient use of resources through appropriate management, planning techniques, synergies and use of technology.

Observations (Note: summary observations on the organization and structure of the OIOS for each of its current Divisions are presented here. Further detail is presented in the appendix).

1. Internal Audit Divisions

   a. The working practices for IAD I and II are stipulated in a manual, which was developed jointly. However, it was observed that the practices applied vary between IAD I and IAD II and even between audit sections (e.g. between audit section Nairobi and audit section Geneva and similarly between the New York sections). This is mainly attributable to the fact that the IAD manual only provides a high-level description of the internal audit processes (e.g. performance of risk assessment and audit planning or obtaining evidence). As a result, the actual audit approach applied depends largely on the interpretation of the respective audit section heads or even audit team members.

   b. The OIOS has not defined a comprehensive risk universe, which could be the basis for a systematic and comprehensive risk assessment, as the IIA Standards would require.

      i. The OIOS currently conducts an annual high-level risk assessment exercise overseen by the Office of the Under-Secretary-General to identify focus areas for the audit plan. This considers risks identified in previous audits and input from clients based on informal meetings. This assessment also considers criteria such as the date of the last audit, budget size, nature of operation and public visibility. This assessment identifies "risky" processes, rather than descriptions of risk.

      ii. The current approach does not meet the requirements of the IIA, whereby the internal audit plan should be developed based on a comprehensive assessment of risks that might affect the organisation. It is particularly unsatisfactory in a situation where the OIOS' independence is impacted by its organisational and funding structure (see also 5.1 - independence) which might give clients more influence on the setting of audit priorities than can be considered appropriate.

      iii. The OIOS plans to launch a Risk Framework project to consolidate methodologies and implement enterprise-wide risk assessment. However, risk management processes are not yet implemented or in a mature state within the UN Secretariat, funds and programmes. This makes it more difficult for the OIOS to conduct risk-based audit plans.

      iv. Apart from the systematic weaknesses in the risk assessment and planning process, also it was noted that certain specific developments and topics are not or not sufficiently reflected in the audit plan:

         1. Link to the UN Millennium Development goals or other key developments or management plans in the UN system, such as the current reform programmes.

         2. Activities with respect to the review of the organisation's governance process, to which internal audit should contribute based on IIA Standard 2130.

         3. Only very limited coverage of IT audit topics, which is partially due to the fact that the OIOS does not have sufficient competent resources in that field (see also Chapter 6 - Technology).

v. Although some auditees report satisfaction with their input into the annual planning process, numerous auditees report limited involvement in the risk assessment process. Their input is not consistently obtained for ensuring a relevant and accurate risk profile. It is also not evident that the management of funds, programmes and Secretariat devote sufficient time and attention to the topic of risk identification and risk management.

vi. There is no discussion of which risks are not being covered by the OIOS.

vii. Risk management processes are not yet implemented or in a mature state within the UN Secretariat, funds and programmes. This makes it more difficult for the OIOS to conduct risk-based audit plans; however, it provides an additional reason for the OIOS to start a disciplined dialogue with management about risk assessment.

c. Audit Engagement Planning and Execution:

i. Based on a review of selected internal audit projects and interviews with IAD staff, the audit approach and audit techniques applied appear to depend to a large extent on the skills, experience and preference of the respective section head or auditor in charge.

ii. Risk assessments performed within an individual audit project do not use a consistent methodology.

iii. Interviews with the OIOS' staff indicated that there is little linkage between the risk determinations that served as the basis for scheduling the audits and the plans for actual audit work to be performed.

iv. There is not always a clear audit trail between the risks identified in the engagement planning process, the results of the audit work and the findings in the audit report.

v. IAD introduced an audit management system (Auto-Audit) in 2004 and part of the IAD staff (including a majority of IAD II staff) has been trained to use it. However, the system is not yet used systematically on all audit assignments. It is used to a greater degree by IAD II than by IAD I.

d. Audit Engagement supervision:

i. The audit approach and the type and extent of supervision depend to a large extent on the section heads and the Auditors-in-Charge.

ii. The following key check points have been determined for the audit process, which require the involvement or approval of directors, section heads and Auditors-in-Charge:

1. Kick-off meeting with the client.

2. Review and approval of the audit plan and programmes.

3. Review and approval of preliminary findings and recommendations.

4. Review and approval of draft and final reports.

iii. Engagement supervision is primarily based on reviews of draft and final reports, including meetings with the auditee rather than on a review of the procedures performed and issues encountered during the process.

iv. IAD II creates time budgets for each assignment and records the actual time spent. However, there is no follow up on overruns. The recent self-assessment by IAD II records in excess of 50% of time as either "general and

administrative" or "non-chargeable". IAD I suspended use of its time tracking system.

v. The Under-Secretary-General of the OIOS conducts a quarterly review of the work plan and reviews specifically planned but not completed, cancelled, and carried-over audits. There is limited accountability outside of the department for completion of the audit plan.

e. Audit Quality Assurance

i. IAD II recently performed a quality self-assessment that was validated by a peer UN entity's internal audit group.

ii. There is no evidence in IAD I that formal quality reviews are carried out or that areas for further improvement are highlighted for future action by the internal auditors. Based on discussions with IAD I management and staff, there is no formal framework for quality assurance ("QA") to ensure consistency and compliance with IAD policies and procedures.

2. Investigations Division (ID)

a. ID conducts investigations into a wide variety of issues including traffic related inquiries, theft, serious crimes such as rape and murder allegations, conflicts of interest, personnel matters fraud and allegations of mismanagement. This is a combination of "policing" activities (investigating allegations of crimes) and forensic investigations of fraud, waste and abuse. The police-type activities appear to be necessary in peacekeeping environments where there may be no or no adequate police infrastructure in place. These activities do not have much, if any, bearing on the other activities of the OIOS. The types of investigations conducted by ID require vastly different skills, from security-type policing skills to data retrieval and forensic accounting.

b. The process used by ID to perform an initial assessment of cases and to determine the appropriate follow-up is not apparent to the leadership of the OIOS or to management.

c. Once a case is "opened" there appears to be no distinction between simple administrative matters and important cases.

3. MECD

a. Evaluations Section

i. The Evaluation Section conducts independent evaluations in order to determine the relevance, efficiency, effectiveness and impact of the subject activities in relation to their objectives.

ii. Evaluations are generally designed and conducted in the following manner:

1. The Evaluation is determined by topic, purpose and scope. The questions and issues to be addressed are determined, and they often drive what data and methodology would be employed.
2. The evaluation team is determined and a work plan is developed.
3. A Terms of Reference document is then generally created and reviewed by the evaluation team and the staff of the programme being evaluated to ensure there is common understanding as to the scope and intent of the evaluation.

b. Internal Management Consulting Services (iMCS)

i. The Internal Management Consulting Services Section provides UN departments with change management services, support for self-evaluations, and organisational learning skills.

ii. iMCS is responsible for building its own client base.

iii. Because iMCS does not have an expense budget, any costs associated with the work must be assumed by the client.

iv. iMCS' work largely entails providing change management services to its UN clients. iMCS also offers its learning services, which is meant to facilitate learning of oversight techniques.

c. Monitoring and Inspection Section (MIS)

i. The MIS is responsible for the preparation of the Programme Performance Report, which contains the programme performance results of the United Nations. The PPR includes the programme objectives, expected accomplishments and indicators of achievement, tabular information on output implementation formerly and other pertinent information on results achieved whenever available. This report is prepared for the Secretary-General.

1. The MIS ensures that the content is meaningful and thorough. The MIS also provides some drafting assistance to ensure that the content is a suitable for distribution. The MIS calls on programme managers to request missing information, fill gaps and to check the accuracy of some of the data provided.

ii. Inspections are conducted ad hoc, at the prerogative of the OIOS Under-Secretary-General, whenever there are indications that a programme is not adequately managed or executed or resources are not being economically used. Due to resource constraints, there are approximately only 2 inspections carried out per year.

Recommendations

1. **As a priority, significantly upgrade the annual risk assessment methodology to be used by all the OIOS internal audit groups:**

   a. **Prepare a complete inventory of all auditable entities and activities for which the OIOS is responsible.**

   b. **Identify categories of risk and define in sufficient detail to enable consistent determination of risk levels across all audit entities. Determine the level of "inherent risk" for each auditable entity.**

   c. **Build an inventory of risk events in collaboration with management. Identify and consider risks that might impact the achievement of UN organisation-wide goals, as well as key risks within significant programmes or activities for which the OIOS is responsible.**

   d. **Create, in consultation with management, a risk assessment model so that identified risks can be assessed using a consistent approach.**

e. Identify management's response to these key risks. Use this to determine what audit procedures may be appropriate and to evaluate the appropriateness of risk responses with management.

f. Prepare a risk ranking of each item in the global audit universe and prepare a multi-year audit plan. Analyse the periodic coverage of high, medium and low risk entities to determine if coverage is consistent with the organisation's risk appetite.

2. Periodically (at least half yearly) review the risk assessment to determine if significant changes in risk profiles require amendments to the audit plan.

a. Include management in periodic discussions about levels and trends in risks through a formal "calling" programme.

3. Include in the planning stage for each audit a requirement to document the key risks noted during the annual planning process and to cross-reference to audit steps designed to address management's response to those risks.

4. The OIOS should provide management with insightful perspectives on risk management, facilitate risk self assessment workshops within organisations and inform management of latest trends or approaches to managing risk.

5. The Investigations function should develop a risk assessment methodology which proactively identifies UN programmes or other activities that possess a high likelihood for fraud and design continuous monitoring programmes to survey those risks.

6. Identify and institute recurring points of coordination between internal audit and the forensic ID functions within OLA:

a. During audit planning, confer with ID to identify areas prone to fraud

b. ID to confer with IAD staff to assess the adequacy of controls systems around processes deemed a high fraud risk

c. ID to inform IAD of trends in frauds or allegations which should be considered in either the annual risk assessment or individual audit processes.

7. Within OLA, ID should segregate its resources into a security group, that should have responsibility for dealing with "police-type" issues and a forensic investigation group that should have responsibility for investigating allegations into fraud, waste and abuse by management. People with skills for dealing with police-type investigations should be part of the security group and people with forensic accounting and related skills such as data retrieval should be part of the forensic investigations group.

8. The forensic investigations component of ID should strengthen its triage process for the initial evaluation of allegations. Some allegations are simple human resource issues and other less serious infractions such as questions about accounting matters (referred to by ID as "Category II" items), and others are potentially serious allegations that require independent investigation (referred to as "Category I"). Once allegations are risk profiled, the initial evaluation process should also assess both:

a. whether there is sufficient evidence to warrant further investigation, and

b. who should conduct the investigation, which in some cases will be higher-level management functions, including the human resource function.

9. Establish OIOS wide documentation standards for audits to ensure achievement of a "re-performance standard". Use the Auto-Audit software to drive compliance with documentation and review standards.

10. **Establish performance goals and standards such as: percentage of time spent on audits, timeliness of report issuance and audit issue follow-up, timely meetings with assigned audit management in accordance with a "calling" programme. Monitor and measure results and link to performance evaluations.**

11. **Formalize a QA process that includes in-field, interim review of work performed to ensure that procedures were completed and to identify and resolve issues encountered in performing the work.**

5.5.6 Technology

Principles

61. Technology is utilized by high performing oversight functions to:
    - Increase the efficiency of operations through enhanced reporting and monitoring of the organisations' goals, plans, programmes and performance.
    - Facilitate global knowledge sharing and communication, both within the OIOS and with stakeholders.
    - Improve effectiveness and efficiency for processes such as continuous monitoring and other surveillance activities.

Observations

1. The Internal Audit groups have purchased Auto-Audit audit software, but its actual use is limited. Inquiries revealed that the use of Auto-Audit at IAD I is very limited (less than 20%) but more prevalent at IAD II.
2. ID is currently running two case tracking systems simultaneously because its new system cannot produce the reports required by member states. Systems are in the process of being updated.
3. Use of technology as an audit tool is ad hoc and limited. Use of Computer Assisted Audit Techniques (CAATs) is infrequent and in "pockets". This observation is consistent with the limited availability of staff members with technology related skills and internal training. Certain individuals have an IT background and have used CAATs in their previous professional experiences. However, the use of CAATs remains at the discretion of the auditor.

Recommendations

1. **Use the ICT risk assessment and audit programmes that have already been prepared by an external consultant to identify the skill sets required of ICT auditors. Determine the most effective way to obtain the required skill sets. Include decisions in an OIOS departmental staffing strategy to:**
    a. **Hire to fill the existing posts.**
    b. **Co-source to obtain skills required on an intermittent basis.**
    c. **Train existing staff, particularly in the fundamentals of IT auditing.**

2. **Implement information technology tools in both the audit and investigations functions after improving the ICT skill level within the OIOS:**
    a. **Once a baseline of ICT skills have been developed and sufficient knowledge of IT applications is created, consider leveraging existing systems and management's IT support capabilities to drive continuous monitoring activities over some key risk areas.**
    b. **Increase the use of computer assisted auditing techniques such as ACL in audits and investigations. Determine an effective means to implement, for example:**
        i. **Developing "super-users" resident in an ICT audit group who assist auditors and investigators.**
        ii. **Training a number of CAAT specialists resident in audit and investigations units.**
        iii. **Training some or all auditors in data mining tools and techniques.**
3. **Use IT tools to enhance global communications and knowledge sharing within the OIOS:**
    a. **Establish databases with OIOS-wide availability to :**
        i. **Provide information on global trends in issues and findings**
        ii. **Include libraries of audit/investigative procedures, accessible by sorts by processes, risks, historic issues etc.**
        iii. **Identified best practices**
4. **Use IT tools to enhance global communications:**
    a. **Status of open audit and investigation issues**
    b. **Reference materials on enhancing control environments**
    c. **Observations on levels and trends of risks and emerging risks that might interest management.**

Technology-enabled auditing can significantly enhance the capacity of the OIOS. However, the adoption of technology must be carefully planned in concert with other elements of the tactical plan for the OIOS otherwise the resource will be wasted. In particular, automated procedures that are adopted in advance of skill development limit the use of the technology. Also, automated procedures can greatly enhance the risk assessment process, but to capture the advantages of shortening the risk assessment cycle, require changes in the risk assessment model itself.

5.5.7 Communication and Reporting

Principles

62. Characteristics of communications and reporting by high performing oversight functions include:

1. Both the oversight function and the management teams under review have an open line to each other. Communication takes place frequently and outside of the formal report writing process. Oversight understands the business, risks and key imperatives for operating

effectively within the conditions. Management understands the need for controls and has an awareness of the key priorities for oversight. Management understands very clearly the processes that oversight undertakes to complete its work.

2. Timeliness. Members of the oversight function have an ability to identify changes in circumstances within the business as they occur, rather than during the annual risk assessment process. Management understands the issues that are arising during oversight reviews, rather than after the process is completed.

3. Effective follow-up. Both management and oversight commit to a process of timely follow-up on outstanding items.

4. Periodically discussing with management emerging trends in risks, control management, best practices and common points of interest from throughout the organisation.

5. A process exists to obtain and respond to management and stakeholder feedback.

6. Periodically informing staff of departmental current events, status, strategies and new leading practices through formal and informal means.

Observations

1. The Under-Secretary-General of the OIOS is required to report at least twice yearly to the Secretary-General on the implementation of recommendations addressed to the programme managers[25].

2. The OIOS is required to report to the Secretary-General, "for transmittal as received to the General Assembly, together with separate comments the Secretary-General deems appropriate, an annual analytical and summary report..."[26] and "on the scope of his activities and the adequacy of resources for the purpose intended."[27]

3. Reports are submitted to the General Assembly either for projects that have been requested by the General Assembly or when the Head of the OIOS deems it appropriate. Reports issued to management are available to member states upon request. Discussions around issues and reporting have reportedly become increasingly difficult between auditors and management, as a result.

4. The Secretary-General comments separately on reports issued by the OIOS to the General Assembly. This can lead to two separate fact or opinion-gathering processes: one through the OIOS' clearing process and one through the Secretary-General's commenting process. Apart from the inefficiencies, this essentially places the Secretary-General in an oversight (opining) role in addition to his management role without the apparatus available to oversight. Side commentary by the Secretary-General on already issued audit reports also creates a second opportunity of recourse for auditees to influence the discussion, and as such may undermine the position of the OIOS. Its common use reflects upon the degree of mis-trust between management and the OIOS. Management sometimes feel it is necessary to counter what they perceive as intransigence on the part of the OIOS with respect to items of lesser or unexplained consequence and the OIOS sometimes views management as readily agreeing to items in the first instance and using the Secretary-General to offer a different point of view. The risk exists that two different facts are presented to the General Assembly, damaging the credibility of the OIOS and of the Secretary-General.

5. For oversight reports issued to programme managers by IAD I the report cycle is not measured. Cycle times vary between projects. The target is 120 days from end of fieldwork.

[25] ST/SGB/273, paragraph 21.
[26] ST/SGB/273, paragraphs 27 and 28.
[27] ST/SGB/273, paragraph 28.

Based on a review of selected projects, it was noted that some cycle times ranged from 120 days to over one year. No justification for the delayed issuance other than wording and the nature of certain findings was provided.

6. The reporting process is rigid. The OIOS, like other UN departments, is subject to limitations on the length of its reports to the General Assembly by the Department of General Assembly Affairs and Conference Management (DGACM). Auditees complain that there is limited or uneven due process for reviewing reports and providing input prior to the submission of a report to the Governing Body. Auditees also complain that perspective is not appropriately applied in determining what should be reported and to whom. This has had the effect of making some auditees more than ordinarily reluctant to deal with the OIOS and placing operational barriers in their way to restrict the nature, timing or extent of work that they perform.

7. Most recently reported figures indicate a less than 50% implementation rate on recommendations. Although management would argue that this is largely due to the trivial nature of many reported recommendations, there is limited accountability for management when they do not respond to recommendations or when action plans are not implemented. Tracking of implementations has been a focus of several recent reports on the oversight function and led to the proposal of a separate oversight committee primarily for this purpose.

8. A review of selected reports across various sections of IAD I underscored that reports may be issued without concurrence between management and the OIOS on certain findings. As a result, the finding is captured in the OIOS tracking tool but no implementation will ensue since management has rejected the observation. This contributes to the low audit issue implementation rate.

9. There are other examples of poor relationship between the OIOS and management. OCHA was offered the opportunity to work jointly with the OIOS in a risk assessment exercise and showed little or no interest. UNHCR is preparing a separate risk assessment without assistance from the OIOS. Commentary from management during this process and from other auditees points to some level of dissatisfaction with the OIOS beyond the normal tension that can exist between auditor and auditee. Whatever the rights and wrongs of specific cases, the OIOS and management have some work to do to enhance co-operation with each other. Failure to drive a better relationship between management and the OIOS will limit the effectiveness of management in understanding risk, acting upon advice and dealing with risk and control matters.

Recommendations

1. **The Secretary-General should not be required to adjudicate between the OIOS and management. Both parties should resolve differences so far as possible prior to releasing reports. If matters cannot be resolved between the OIOS and the executive management body discussed in recommendation 1c of section 4.1 under "Independence" then both parties should have access to the IAAC to present their points of view.**

2. **The OIOS and management need to improve the frequency, level and quality of communications. This should be achieved by:**

    a. **Enhanced skills-building in client relationship management, particularly for the senior members of the OIOS. These skills should be an important component of performance evaluations.**

b. Organising manager-level staff around key "clients": embedding these personnel more into the client environment, where they can attend relevant management meetings and remain connected with emerging issues.

c. Greater participation with management during the annual planning processes. The OIOS should educate management about the risk assessment and audit processes, survey management on their views about risk, and present the draft plan to obtain management reaction. None of this compromises the independence and objectivity of the OIOS, rather it reflects upon a commitment to professionalism. In fact, greater engagement with management can be a contributing factor to objectivity as it requires the OIOS staff to become more knowledgeable and therefore less reliant on representations by management.

d. More periodic communication outside of the context of the audit processes:

i. A formal calling programme whereby the senior OIOS staff are assigned management members to visit periodically to share information about known risks, controls, emerging risks, status of relevant portions of the audit programme, or other matters that management might find valuable.

ii. Enhanced protocols around issue discussion and resolution with management.

e. The OIOS should become a source of information about risks and controls and should play an educational role on the subject of risk management.

3. Where management disagrees with the OIOS, the Head of the OIOS will determine whether appropriate due process has been applied and will determine whether the matter needs to be raised with the internal executive body prior to reporting.

4. If an audit activity identifies a matter that involves a member of the executive body, the Head of the OIOS may determine the need to review this directly with the IAAC to determine the appropriate actions.

5. The OIOS should share drafts of all observations and recommendations with management of the activity being audited. Management should have the opportunity to comment in writing, but should not delay the issuance of a report unduly.

a. Final written reports should not be issued before the work is complete, including providing management a reasonable opportunity to offer responses and action plans and completion of all quality assurance procedures.

b. Final written reports should be issued to the management of the function being audited for the purpose of assisting management with setting the appropriate controls in place.

c. Final written reports should be issued to the IAAC which is responsible on behalf of the General Assembly for understanding the report issues and assessing the work of the OIOS.

d. The IAAC should advise the General Assembly, as necessary but at least annually, on the significant issues raised and on overall progress of the internal audit activity.

e. Member states may request further information from the IAAC.

6. Rather than relying solely on all reports being transmitted to member states on request, transparency is best guaranteed by, first, holding the head of the OIOS to a high

standard of professional judgment and then allowing an open and free dialogue between the head of the OIOS and the governing body, both directly and through regular reporting to the proposed IAAC. The commitment to professionalism within the OIOS will dictate which reported items are appropriate and have been appropriately reviewed with management in advance. While this report recommends that reports should still be made available to member states upon request, this should enhance, not undermine, the process through which the IAAC conducts oversight of the OIOS.

7. **To enhance transparency and promote accountability, critical recommendations and the progress towards them should be reported to the IAAC. Lack of progress on critical recommendations should be raised by the IAAC, after a reasonable period of time, to determine whether they present increased risk to the organisation.**

8. **It should be a practice that outgoing heads of Secretariat units, funds and programmes meet with the Head of the OIOS to discuss their views of the organisation, the control environment, risks etc. This would provide valuable information to the OIOS and elevate the stature of the OIOS by providing additional visibility within the organisation.**

5.5.8 Knowledge Management

Principles

High performing oversight functions have formally instituted knowledge management practices that:

a. Increase departmental efficiency and effectiveness by sharing information about:
   i. Observed best practices.
   ii. Emerging risks.
   iii. Themes and trends in issues and findings, including those from both formally issued reports and noted during informal communications with management.
   iv. Recent external events and/or pronouncements that might impact the organisation

b. Maintain on-going sharing of information with management and stakeholders:
   i. Share information about themes and trends in control matters
   ii. Observed best practices
   iii. Observations on emerging risks
   iv. Matters of interest noted in one unit or programme that may be of interest to others

Observations

1. Knowledge management has been performed on an ad hoc basis, principally within the various divisions of the OIOS. Knowledge sharing with auditees appears to be principally through the audit reporting process.

2. As discussed above, there is a lack of sharing between the divisions within the OIOS.
3. Planning for resources and risk coverage is sub-optimal without a common language or understanding of control issues.
4. The Investigations Division has established a Knowledge Management Unit (KMU):
    a. Over the past two years, approximately 30 proactive cases have been opened by KMU but due to lack of resources, no action has been taken on them.
    b. KMU created and shared with the OIOS' Internal Audit, a document called "Overview of Categories of activity in which the risk level is assessed as Critical or High within UN Departments, Programmes and Missions for OIOS Audit Planning and Risk Assessment" in September 2005. This provides a general review of those programmes that are most exposed to risk. The report identifies by programme, area of activity and nature of activity the areas that ID believes would be most helpful to the Audit Division in its completion of the risk assessment.

Recommendations

1. **The OIOS should develop and implement a formal global knowledge management strategy that should:**
    a. **Identify what knowledge should be captured and shared. Examples may be:**
        i. **New or emerging risks identified in one activity that could have a bearing on other activities**
        ii. **Trends relating to control improvement or deterioration that could have broader implications or that could be tackled in a consistent manner by management across activities, for example, privacy and security issues.**
        iii. **Evolving audit techniques and their effectiveness in the field**
2. **The strategy should identify specific staff roles in knowledge management and forums that allow for this. Knowledge sharing should be targeted, not something that is done in spare time. A global knowledge manager should be appointed.**
3. **Knowledge accumulation and sharing should be included in individual goals and objectives.**
4. **The strategy should include the necessary tools and technology support systems to ensure that:**
    a. **Contributions to a knowledge database are controlled by a qualified person.**
    b. **Information is current.**
    c. **Users have ready access.**
5. **Knowledge sharing protocols, possibly through the OIOS' web page, should include specific requirements to share information with auditees and other stakeholders about:**
    a. **Levels and trends in known and emerging risks**
    b. **Controls and best practices**
    c. **Current topics the OIOS determines that the organisation should be educated about.**

5.5.9 Performance Measures

Principles

The performance measures adopted by the OIOS should be based on the definition of value-added for stakeholders. This should be articulated in the OIOS' strategic plan, submitted along with budget requests. Based on discussions and reading of mandates, the following appear to be most valued:

- Provide assurance to management and to the General Assembly that controls are operating adequately;
- Provide assistance to management in the identification of risk factors and of suitable controls to manage risk;
- Promote accountability;
- Enhance transparency;
- Promote efficiency;
- Enhance the overall level of control;

Observations

1. Measures currently reported are the dollar amount of recommended savings, the dollar amount actually recovered, the number and type of recommendations and the degree of implementation of recommendations. These measures are difficult to substantiate and create incentives to focus on savings, rather than other risk areas, and for more reportable items which can diminish the credibility of the OIOS if these are not quality items.
2. There is no adequate implementation tracking mechanism in place currently. Most recently reported figures indicate less than 50% implementation rate on recommendations. It is not possible to determine the reason for lack of implementation which could vary from appropriateness and practicality of recommendations to the lack of incentive for management to implement them.
3. Departmental performance has historically been measured based on the volume of work, such as the number of audits completed, cases handled or engagements performed.
4. A proposal exists for the OIOS' Directors to have a "results agreement", loosely based on a balanced scorecard. This will address operational matters of importance such as:
    a. Filling vacancies, maintaining gender balance
    b. Budgetary aspects
    c. Client satisfaction
    d. Timeliness of reports

Recommendations

1. **The OIOS should be measured by its success in meeting its objectives, including improving controls and managing risk.**

2. **The OIOS should identify specific activities that it will conduct to meet the key expectations of the stakeholders set out in the "principles" section above. It should then develop measures that can be used to assess the completion of these activities. For example:**

	Services provided by the OIOS
Activities :	
Providing assurance	• Conduct audits over controls in key risk areas • Provide assurance over management evaluation practices.
Providing assistance to management	• Conduct ad-hoc reviews in response to specific management requests. • Perform a joint risk assessment with management • Provide resources in response to allegations of fraud, waste and abuse • Advise management on actions that should be taken
Promoting accountability	• Create an issue tracking mechanism and report progress • Conduct follow-up audits or reviews
Enhancing transparency	• Respond to requests from the General Assembly. • Report trends and statistics on control findings.
Promoting efficiency	• Report separately items that impact efficiencies
Enhancing controls	• Provide management with practical recommendations on control failures. • Report control trends • Conduct periodic education sessions for management.

3. **The OIOS should establish meaningful performance measures which could allow the development of a departmental-wide balanced scorecard to track progress. In this regard:**

   a. **The OIOS' terms of reference and UN-wide objectives, initiatives and values should be reflected in this scorecard.**

   b. **Individual goals and objectives should support the divisional and global objectives.**

   c. **The balanced scorecard objectives at each level should be measured, monitored and reported to the Head of the OIOS.**

5.6 Summary of costed recommendations

63. The incremental direct costs associated with the recommendations involve changes to the organization and structure of the OIOS and investments in staffing, working practices and technology. These costs include the following:

- The transfer of evaluations and management consulting includes the establishment of an evaluations practices unit as recommended above, the recurring cost of which includes staffing for the unit which will not be borne by the OIOS but is a cost to the UN.
- The transfer of investigations includes the recurring cost of providing the OIOS with access to legal counsel.

- The enhancement of working practices includes the recurring cost of staffing a new professional practices group and a knowledge manager, plus the non-recurring start-up costs of revising the internal audit methodology, conducting pilots of new methodology and training on the methodology for all of the OIOS' personnel.
- The staffing costs include the recurring cost of a director to lead the human resource strategy for the OIOS, and the recurring costs of additional resources to meet immediate ICT audit needs. It also includes additional budgeted amounts for the OIOS to source specialist resources as needed from outside the organization. Start-up costs include assistance with the immediate tasks of assessing skills and developing resourcing plans as well as additional training on ICT skills in audit.
- The risk assessment costs include the non-recurring cost of revising the risk assessment approach and conducting a new risk assessment, strategic plan and budget. This also includes the recurring cost of conducting risk workshops and risk updates more frequently than the risk assessment and planning cycles currently require.

64. Key to success in launching a revised OIOS function will be the degree to which mandates and structures are quickly re-aligned and core processes enhanced within the internal audit activity. Some actions will take time to complete and a change management effort will be required, to ensure new working practices are developed and properly tested prior to being launched. The OIOS will need to continue to provide internal audit services while some of the new practices are being developed including a revised risk assessment and plan.

65. The following chart outlines the one-time non-recurring and recurring costs associated with the oversight recommendations. Recurring costs represent costs for one year.

Recommendations	Estimated Costs (USDmm)	
	One-time non-recurring	Recurring
Acknowledge management's responsibility over setting risk tolerance, implementing controls and managing risk (5.5.2)	$0.040	$0
Transfer evaluations and management consulting activities to line management (5.5.3)	$0.190	$0.490
Focus the OIOS on internal auditing, including auditing the process management uses to perform evaluations (5.5.3)	$0.220	$0
Transfer investigations to the office of Legal Affairs and make provisions for forensic auditing expertise (5.5.3)	$0.040	$0.370
The working practices of the OIOS should be strengthened (5.5.5)	$0.860	$0.800
An inventory of staff skills should be assessed and shortfalls, including Information and Communication Technology ("ICT") skills should be resolved quickly (5.5.4 and 5.5.5)	$0.350	$1.440
A risk assessment should be performed, under a new risk assessment framework, as the basis for a revised budget (5.5.5)	$0.420	$0.630

Appendix:

Additional detail on observations on 'Organisation and Structure of the OIOS' and on the OIOS' 'Working Practices'

Organisation and Structure of the OIOS

1. The OIOS is organized in four divisions which operate as separate silos: two for internal audit, plus an investigations division and a monitoring, evaluation and consulting division

2. Internal Audit Divisions

   a. Internal audit operates two, autonomous divisions, one based in New York (IAD I) and one based in Geneva (IAD II).

   b. Internal Audit Directors of IAD I and IAD II as well as the Deputy Director position in IAD I are vacant and being filled by temporarily appointing Acting Directors and Deputies until this review is complete.

   c. There is no department-wide Quality Assurance function as contemplated by the IIA Standards. Quality reviews are performed on an ad hoc basis on audit reports prior to issuance and at the audit review level, however General Assembly reports are subject to rigorous review processes.

   d. There is no Professional Practices group within the OIOS. Benchmarking research indicated that oversight groups of the size and complexity of the OIOS typically have a group situated at head office with a department-wide mandate over quality assurance, department policy and procedures and work performance manuals and identifying and reporting best practices. Such a group ensures consistent application of approved methodologies, and drives quality in working practices and reporting.

3. Investigations Division ("ID")

   a. The investigations group has expanded rapidly within the past 18 months from approximately 20 individuals to over 110. The ID operates strictly within the UN administrative law system. It is not part of the criminal justice system. As such it has no disciplinary or adjudicative authority. Case outcomes are reported to the programme managers, the Secretary General and to the Secretariat. ID's rapid growth over this past year has highlighted the need for a solid infrastructure to effectively support the function. In February, 2006 ID restructured itself into three operational offices in New York, Vienna and Nairobi.

   b. ID staff interviewees affected by the rapid growth and changes within ID reported a lack of clarity and direction provided by senior management of the division. It is too early to assess whether the new operational structure will change this, but ID staff believe there has been excessive centralisation in managing and decision-making.

   c. ID has difficulty keeping pace with the expanding case load. Many cases are open but little work is performed on them. As new cases arise, staff are often pulled from ongoing matters which limits their ability to return to complete those investigations in an effective manner.

   d. Investigations can be launched by the OIOS based on the results of an audit. This drives distrust among management about the purpose of internal audits.

   e. There is little visibility into the "triage" process whereby cases that arrive in investigations are initially assessed for determining the appropriate resources and direction of the investigation.

   f. Investigations and audit do not routinely share information. The lack of sharing between investigations and audit divisions limits the effectiveness of both: investigations can support the audit of high risk areas and audit needs to understand

the potential control issues arising out of investigative findings. Potential control issues should also ultimately be shared with management.

4. Monitoring, Evaluation and Consulting Division MECD

   a. Established in its current form in August 2001, MECD is comprised of three sections:

      i. monitoring and inspection ("MIS"),

      ii. evaluation, and

      iii. internal management consulting (iMCS).

   Each division provides a range of services to the Secretariat.

   b. Monitoring and Inspections Section (MIS)

      i. The MIS section is comprised of 5 professionals.

      ii. Monitoring is defined as management's continuous examination of progress achieved during the implementation of an undertaking to track compliance with the plan, and to take necessary decisions to improve performance.

      iii. The Monitoring function provides training and support for programme planning and assists the programme managers to monitor their work in a results-based framework and report on the implementation.

      iv. Inspection is defined as a general examination that seeks to identify vulnerable areas and malfunctions and to propose corrective action.

      v. Inspections are usually conducted at the prerogative of the USG of the OIOS, whenever there are indications that a programme is not adequately managed or executed or resources are not being economically used. Currently, there are approximately 2 inspections carried out per year.

      vi. MIS is also tasked with the preparation of the biennial Programme Performance Report (PPR) that provides information on the results achieved and the delivery of outputs for the preceding periods. It contains some 50,000 outputs and approximately 1,000 indicators of achievement.

      vii. The PPR contains the programme performance results of the United Nations. It includes the programme objectives, expected accomplishments and indicators of achievement, tabular information on output implementation and other pertinent information on results achieved. This report is prepared for the Secretary General.

      viii. The preparation of the PPR is conducted by the MIS. Much of the information required for the production of this report comes from the Integrated Monitoring & Documentation Information System (IMDIS) database. Although MIS staff reported that the IMDIS functionality needs to be upgraded, this is not an OIOS system. Management reports that this has been included in the specification for a new ERP system.

      ix. There are two different tasks that are intended to take place in preparation of the PPR.

         1. Compiling the information and data, providing quality assurance and ensuring that it is a good product for distribution

         2. Providing assurance over what information is being put into the PPR

      x. Based on observation of work product and interviews with MIS staff, the MIS section is largely tasked with compiling the information, however, no real

verification or validation of data indicators is being conducted. Reported "outputs" are verified (outputs might be comprised of information on meetings, publication of documents, etc). However, largely due to a resource constraint, the actual indicators of achievement, which number over 1,000, are not.

c. Evaluation Section

i. The Evaluation Section conducts evaluations to assess the relevance, efficiency, effectiveness and impact of programmes. These evaluations, which are mandated by the Committee for Programme and Coordination, are intended to assist policy development, planning and managerial decision-making at the legislative and executive level.

ii. The OIOS Evaluation Section conducts "external" evaluations with a view to ensuring impartiality and objectivity in the analysis and findings. These findings and recommendations and intended to provide objective and credible evaluative evidence in strategic decision-making and performance improvement.

iii. However, there are also approximately 14 programmes within the UN Secretariat that have assigned units that carry out internal, or self-evaluation functions. These internal, or self-evaluations are managed and conducted internally by specialised staff in assessing their own programmes. OIOS' Evaluation Section provides methodological and training support and guidance in evaluation to all UN Secretariat departments and programmes.

iv. The definition of Evaluation from the "Norms for Evaluation in the UN System"[28] is:

1. "An evaluation is an assessment, as systematic and impartial as possible, of an activity, project, programme, strategy, policy, topic, theme, sector, operational area, institutional performance, etc"[29]. It focuses on expected and achieved accomplishments, examining the results chain, processes, contextual factors and causality, in order to understand achievements or the lack thereof. It aims at determining the relevance, impact, effectiveness, efficiency and sustainability of the interventions and contributions of the organisations of the UN system. An evaluation should provide evidence-based information that is credible, reliable and useful, enabling the timely incorporation of findings, recommendations and lessons into the decision-making processes of the organisations of the UN system and its members.[30]

v. Evaluation is seen as an integral part of the management and decision making process, while also providing inputs into the planning, programming, budgeting, implementation and reporting cycle.

vi. Currently, the Evaluation Section is mandated by the regulations and rules governing evaluation to, each year:

1. conduct one in-depth evaluation of a Secretariat department or programme.

[28] United Nations Evaluation Group - UNEG, 29 April 2005

[29] Hereinafter referred to as an "undertaking"

[30] This definition draws on Regulation 7.1 of Article VII of ST/SGB/2000/8 and from the widely accepted Principles for Evaluation of the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD DAC).

2. conduct one thematic evaluation of a Secretariat-wide issue
3. conduct two triennial reviews of past in-depth and/or thematic evaluations
4. provide methodological and training support and guidance in evaluation to all UN secretariat departments and programmes.

vii. The Evaluation Section is currently comprised of 3 full time staff. The head of the Evaluations Section is seconded from UNDP for 2 years. Staff report that often there is insufficient budget to hire a needed subject matter experts (such as Human Rights), in specific technical areas within the Secretariat.

viii. Currently the Evaluations Section reports its findings to the Committee for Programme Co-ordination (CPC), which is a subsidiary organ of the Economic and Social Council of the General Assembly. The CPC is responsible for planning, programming and coordination activities. All work is mandated by the CPC that decides what should be evaluated.

ix. The Evaluations Section's role has diminished over time. In the 1990s, when they were part of the Department of Management, there were 6 full time professionals. Currently there are only 3 with the head seconded from the UNDP. They were then moved into the OIOS because evaluations were viewed as an independent oversight function.

x. Evaluations Sections staff reported a lack of resource and time to develop a consistent methodological approach or knowledge management tools for evaluations.

xi. Evaluations staff reported that the role of Evaluations weakened over time due to several factors:

1. The previous Director retired and no-one was nominated to replace this position.
2. The reporting relationship to CPC is not effective, as they meet fewer than three times a year.
3. The transfer to the OIOS blurred the distinct role intended for the Evaluations Section. For example, when iMCS needed more resources, they were reallocated from Evaluations.
4. The Evaluation Section's main role in providing independent assurance over programme progress was, therefore, hampered.

xii. Based on interviews with the Evaluation Section, the perception is that due to the current resource constraints, governance has largely been achieved by self-evaluations conducted by the various departments within the Secretariat, rather than independent evaluations. Based on the number of UN Secretariat departments or programmes, each will be subject to an evaluation by the OIOS only once every 30 years given the current resources.

xiii. Sentiment within the evaluations group is that it should be organized as an independent, stand-alone unit to maintain its objectivity. This is supported by benchmark research from both the World Bank, and the UNDP, as well as that research from the OECD/DAC and the Evaluation Cooperation Section, indicates that the evaluative function should be fully independent to supervise and report on evaluations[31].

[31] United Nations Evaluations Group (UNEG) Statement on the JIU Report, 27-28 March, 2006

xiv. Comparison with UNDP. UNDP's Evaluation Office mandate is to conduct independent evaluations of UNDP programs and results; to provide the framework and standards by which other units and country offices conduct evaluations; and, thirdly, to provide evaluations directly to the Executive Board alongside management responses. The UNDP's Evaluation Office has full authority to set its own agenda and to decide what to evaluate, and to commission evaluations. The Evaluation Office is comprised of 15 professionals, with a $3.5 million budget which is separate from staffing funds. There is additional funding that also comes from donors who also fund some other activities that they undertake. The Director of the UNDP Evaluation Office reports to the Executive Board through the Administrator. The agenda of evaluations to be conducted is defined by the Evaluation Office and approved by the Board. Senior management is consulted but does not set the agenda. The Director has full authority over the process and content of evaluations and senior management (and all others in UNDP) cannot influence the content and recommendations. Evaluation reports of a strategic nature are presented directly to the Executive Board by the Director during the formal session. The UNDP Administrator is required to ensure sufficient capacity and funding for the evaluation function. The Administrator is also required to ensure that a management response to each evaluation is prepared and in the case of strategic evaluations, that it is presented by UNDP to the Executive Board in the same session that the evaluation is presented by the Director.

d. Internal Management Consulting Services Section (iMCS)

i. The Internal Management Consulting Services section provides change management services within the Secretariat. The iMCS is an internal management consulting function, with six full time professionals. The main focus of this group is change management. Engagements are conducted through facilitated workshops and close client partnership and collaboration. iMCS "markets" their services, which includes the dissemination of brochures and flyers on the services they provide.

ii. iMCS develops a formal proposal for clients that express an interest in their services, which also includes a confidentiality clause. The results of the work performed by iMCS remains confidential and are not shared with the rest of the OIOS.

iii. iMCS does not have a travel budget, therefore placing non-NY based offices at a disadvantage as they need to pay travel costs and expenses to engage iMCS.

iv. The origin of iMCS within the OIOS lies in the former OIOS Under-Secretary-General who believed that a dedicated, flexible resource was needed to provide the UN Secretariat with support to implement changes aligned with its reform objectives and to respond to programme managers' requests for assistance. Prior to 2001, this service did not exist within the Secretariat.

v. The appropriateness of iMCS as an OIOS section is the subject of some concern. Numerous interviewees voiced concern or questioned iMCS' placement within the oversight function. There were observations made as to the lack of strategic role they have within the OIOS, whereas if placed elsewhere in the Secretariat such as within the Department of Management, they might be able to provide services on a wider, strategic level, rather than in the current piecemeal fashion.

vi. Consulting and audit services present a conflict of interest, both in perception and in reality. It is possible that an internal auditor may be placed in the

position of assessing OIOS consulting service work or that consulting work might be requested in anticipation of delaying or diverting a planned audit.

OIOS Working Practices

1. Internal Audit Divisions

   a. The working practices for IAD I and II are stipulated in a manual, which was developed jointly, however, it is noted that the practices applied vary between IAD I and II and even between audit sections (e.g. between audit section Nairobi and audit section Geneva and similarly between the New York sections). This is mainly attributable to the fact that the IAD manual only provides a high-level description of the internal audit processes (e.g. performance of risk assessment and audit planning or obtaining evidence). As a result, the actual audit approach applied depends largely on the interpretation of the respective audit section heads or even audit team members.

   b. Audit Risk assessment and audit planning:

      i. The OIOS has not defined a comprehensive risk universe, which could be the basis for a systematic and comprehensive risk assessment. Without an adequate risk assessment process, it is difficult to:

         1. Demonstrate conformity with IIA Standards.

         2. Effectively determine the staff resources required to execute planned work.

      ii. The OIOS currently conducts an annual high-level risk assessment exercise overseen by the Office of the Under-Secretary-General to identify focus areas for the audit plan. This considers risks identified in previous audits and input from clients based on informal meetings. This assessment also considers criteria such as the date of the last audit, budget size, nature of operation and public visibility. This assessment identifies "risky" processes, rather than descriptions of risk.

      iii. The current approach does not meet the requirements of the IIA, whereby the internal audit plan should be developed based on a comprehensive assessment of risks that might affect the organisation. It is particularly unsatisfactory in a situation, where the OIOS' independence is impacted by its organisational and funding structure (see also 5.1 - independence), which might give clients more influence on the setting of audit priorities than can be considered appropriate.

      iv. The OIOS plans to launch a Risk Framework project to consolidate methodologies and implement enterprise-wide risk assessment. This is dependent on management co-ordination.

      v. The General Assembly proposes a strategic framework as a basis for the OIOS' biennial planning process identifying objectives, strategies and measures of achievement for each Department.

      vi. Apart from the systematic weaknesses in the risk assessment and planning process, it was also noted that certain specific developments and topics are not or not sufficiently reflected in the audit plan:

1. Link to the UN Millennium Development goals or other key developments or management plans in the UN system, such as the current reform programmes.

2. Activities with respect to the review of the organisation's governance process, to which internal audit should contribute based on IIA Standard 2130.

3. Only very limited coverage of IT audit topics, which is partially due to the fact that the OIOS does not have sufficient competent resources in that field (see also Chapter 6 - Technology).

vii. There is a communication gap between the OIOS and its clients within management with respect to audit planning. Although some auditees report satisfaction with their input into the annual planning process, numerous auditees report limited involvement in the risk assessment process. Their input is not consistently obtained for ensuring a relevant and accurate risk profile. The resulting audit plan may be based on criteria that may not be risk driven. Leading practice is for the risk assessment process to be collaborative with management in order to ensure the OIOS and management are "on the same page" as to the key risks and to minimise disagreement about the proper use of resources.

viii. The IAAC should be informed of which risks are not being covered by the OIOS. Alternative plans, such as the extent of management oversight and the responsibility of other components of internal and external oversight can be included in this discussion to help stakeholders assess whether coverage is comprehensive and duplication minimised.

ix. It is not evident that the management of funds, programmes and Secretariat devote sufficient time and attention to the topic of risk identification and risk management. Risk management processes are not yet implemented or in a mature state within the UN Secretariat, funds and programmes. This makes it more difficult for the OIOS to conduct risk-based audit plans; however, it provides an additional reason for the OIOS to start a disciplined dialogue with management about risk assessment.

c. Audit Engagement Planning and Execution:

i. Based on a review of selected internal audit projects and interviews with IAD staff, the audit approach and audit techniques applied appear to depend to a large extent on the skills, experience and preference of the respective section head or auditor in charge. The audit manual provides a high-level description of the audit approach; however, it does not define for example how evidence is to be obtained, sampling to be performed or how the results are to be documented.

ii. Risk assessments performed within an individual audit project do not use a consistent methodology. For example, the DPKO section of IAD I uses a framework and methodology that was developed for one pilot project (Kosovo Mission). This pilot was conducted in September 2002. It could not be confirmed that all peacekeeping mission auditors have applied the same methodology because it is not clear if the methodology is recommended or proscriptive. Another risk assessment was completed by the same consultant in March 2006 in connection with the review of the DPKO. However, discussions with the DPKO audit section chief indicated that the risk assessment was performed subsequent to the review and therefore could not be used to drive

the planning process. Other sections within IAD I have not fully implemented a project-level risk assessment process. Based on interviews, the audit group responsible for the Department of Management typically focuses on critical areas such as the procurement function, for example, because of the inherent high risk associated with these processes. Procurement is usually perceived as one of the riskiest processes and is selected for review every year across the various departments and programmes of the UN.

iii. Interviews with the OIOS' staff indicated that there is little linkage between the risk determinations that served as the basis for scheduling the audits and the plans for actual audit work to be performed.

iv. It was also noted that there is not always a clear audit trail between the risks identified in the engagement planning process, the results of the audit work and the findings in the audit report. This was also noted by the self-assessment performed by IAD II in 2005, which identified significant weaknesses with respect to the standard of working papers some of which are in the process of being addressed. The IAD II audit reports are subject to an extensive review before being issued, but this is not reflected in the working papers.

v. A review of documentation related to 4 projects conducted at Headquarters demonstrated inconsistent substantiation of work performed and audit procedures used to develop audit observations and recommendations. The documentation included in the file consisted mainly of documents provided by the auditee without a clear description of audit procedures performed. It was difficult to determine the correlation between audit results and audit procedures.

vi. IAD introduced an audit management system (Auto-Audit) in 2004 and part of the IAD staff (including a majority of IAD II staff) has been trained to use it. However, the system is not yet used systematically on all audit assignments. It is used to a greater degree by IAD II than by IAD I.

d. Audit Engagement supervision

i. As mentioned above, the audit approach and the type and extent of supervision depend to a large extent on the section heads and the Auditors-in-Charge. Since the reviews are not always evidenced it is difficult to determine their extent.

ii. The following key check points have been determined for the audit process, which require the involvement or approval of directors, section heads and Auditors-in-Charge:

1. Kick-off meeting with the client
2. Review and approval of the audit plan and programmes
3. Review and approval of preliminary findings and recommendations
4. Review and approval of draft and final reports

iii. Based on a review of working papers and staff interviews, it was identified that engagement supervision focuses on a review of the draft and final reports, specifically on meetings with clients and on editing the wording the audit reports, rather than on a review of the procedures performed and issues encountered.

iv. IAD II creates time budgets for each assignment and records the actual time spent. However, there is no follow up on overruns. It is noted that the time planned for field work is usually not extended; instead the overruns are largely

attributable to the time spent on finalising the audit report (see chapter on communication & reporting for details). The recent self-assessment by IAD II records in excess of 50% of time as either "general and administrative" or "non-chargeable". IAD I suspended use of its time tracking system.

v. The Under-Secretary-General of the OIOS conducts a quarterly review of the work plan and reviews specifically planned but not completed, cancelled, and carried-over audits. There is limited accountability outside of the department for completion of the audit plan.

e. Audit Quality Assurance

i. IAD II recently performed a quality self-assessment that was validated by a peer UN entity's internal audit group.

ii. Evidence was not found in IAD I that formal quality reviews are carried out or that areas for further improvement are highlighted for future action by the internal auditors. Quality reviews are focused on pre-issuance report reviews.

iii. Based on discussions with IAD I management and staff, there is no formal framework for quality assurance ("QA") to ensure consistency and compliance with IAD policies and procedures. Quality reviews are performed solely on internal audit projects performed at the request of the General Assembly. QA consists primarily of detailed review of the draft reports. In IAD I, quality assurance is under the responsibility of one section chief who has no staff support. This individual also has responsibility for tracking of audit issues and performance measurement, thus limiting his availability for a comprehensive quality programme. Additional QA is performed informally by each one of the other section chiefs on their respective areas.

1. For example, DPKO mission audit reports are sent to the DPKO mission section chief in New York. However, QA performed on these projects is very limited in scope and nature due to the volume of reports issued every year (over 110) and the limited number of resources involved in the process. In addition, QA does not include review of the work-papers because of the distance between the work and the QA reviewer. Access by IAD I in New York to work-papers compiled by the various mission auditors usually occurs after the mission has been closed and work-papers are shipped back to New York for archiving. Work-papers prepared by mission auditors are usually manual as the Auto-Audit work-paper software is in limited use. A review of work-papers prepared for a procurement review performed in East Timor was conducted for this report and the following was noted:

a. Work-papers were mostly manual and included a significant volume of handwritten notes.

b. Audit steps had been performed but the work-papers did not clearly establish the linkage between the audit objectives, audit steps and findings.

c. It was unclear if work performed had been reviewed by anyone other than the auditor who led the fieldwork.

2. Investigations Division

a. ID conducts investigations into a wide variety of issues including traffic related inquiries, theft, serious crimes such as rape and murder allegations, conflicts of interest, personnel matters fraud and allegations of mismanagement. This is a combination of

"policing" activities (investigating allegations of crimes) and forensic investigations of fraud, waste and abuse. The police-type activities appear to be necessary in peacekeeping environments where there may be no or inadequate police infrastructure in place. These activities do not have much, if any, bearing on the other activities of the OIOS. The types of investigations conducted by ID require vastly different skills, from security-type policing skills to data retrieval and forensic accounting.

b. The process used by ID to perform an initial assessment of cases and to determine the appropriate follow-up is not apparent to the leadership of the OIOS or to management.

c. Once a case is "opened" there appears to be no distinction between simple administrative matters and important cases.

3. MECD

a. Evaluations Section

i. The Evaluation Section conducts independent evaluations in order to determine the relevance, efficiency, effectiveness and impact of the subject activities in relation to their objectives.

ii. The Evaluation Section is mandated by regulation to each year conduct the following:

1. One in-depth evaluation of a Secretariat department or programme (which looks at one specific programme)

2. One thematic evaluation of a Secretariat-wide issue (which looks at cross-cutting issues Secretariat-wide)

3. Conduct two triennial review of past in-depth and/or thematic evaluations

4. Provide methodological and training support and guidance in evaluation to all UN secretariat departments and programmes.

iii. In-depth evaluations are conducted as part of a planned programme of work for the Evaluation Section. The Evaluations Section presents a list of possible evaluation topics to the CPC with both in-depth and thematic evaluations, from which they can select. Thus, it is the CPC that actually initiates the request to conduct specific evaluations within a given time frame. The list of possible in-depth evaluation topics are presented to the CPC in the biennial report on "Strengthening the role of evaluation and the application of evaluation findings on programme design, delivery and policy directives." Beginning in 2006, the Evaluations Section will also present the list of possible thematic evaluation topics in the same report.

iv. A structured process is used to identify the evaluation topics. The topics are ranked based on cumulative scores that are derived from individual scores for specific criteria. For in-depth evaluations, Evaluations begin with the programmes that have not been the subject of in-depth evaluation within the past ten years and then use a ranking methodology. For thematic evaluations, they begin with topics suggested by consultations with programme managers and inter-agency bodies (which could be based on self-evaluations) as well as ideas that emanate from their prior work.

v. Evaluations are generally designed and conducted in the following manner:

1. The Evaluation is determined by topic, purpose and scope. The questions and issues to be addressed are determined, and they often drive what data and methodology would be employed.

2. The evaluation team is determined and a work plan is developed.

3. A Terms of Reference document is then generally created and reviewed by the evaluation team and the staff of the programme being evaluated to ensure there is common understanding as to the scope and intent of the evaluation.

vi. In the actual conduct of the external evaluation, the following steps take place:

1. Evaluations are conducted through the use of surveys, interviews or other forms of information-gathering decided upon during the design stage of the evaluation.

2. From the data derived in 1. above, findings are determined and conclusions are formulated.

3. A draft report is created, and discussed with key stakeholders. The report is finalised together with suggestions for an evaluation follow-up plan; and then the report is published and disseminated.

b. Internal Management Consulting Services (iMCS)

i. The internal Management Consulting Services Section provides UN departments with change management services, support for self-evaluations, and organisational learning skills.

ii. iMCS develops its business and engagement pipeline on its own, by disseminating flyers, brochures and giving presentations about the work it performs. Although, iMCS is responsible for building its own client base, it does not have a separate budget for these marketing efforts. Once a client is interested in obtaining the services of iMCS, they must request the services. iMCS in turn prepares a proposal that outlines the scope of work, and the understanding of the needs of the prospective client. Once the terms and conditions are agreed upon, the work commences.

iii. Because iMCS does not have an expense budget, any costs associated with the work must be assumed by the client. For example, non-New York based clients would be responsible for paying for the travel costs of the iMCS consultants to the "client's" workplace.

iv. iMCS' work largely entails providing change management services to its UN clients. Some of these services may include implementation of changes in operations, policies or procedures, and also, may include assistance and support for the conduct of self-evaluations. iMCS also offers its learning services, which is meant to facilitate learning of oversight techniques.

c. Monitoring and Inspection Section (MIS)

i. The MIS is responsible for the preparation of the Programme Performance Report, which contains the programme performance results of the United Nations. The PPR includes the programme objectives, expected accomplishments and indicators of achievement, tabular information on output implementation formerly and other pertinent information on results achieved whenever available. This report is prepared for the Secretary-General.

1. The MIS is responsible for gathering the information that comes into the Integrated Monitoring & Documentation Information System (IMDIS) database. Once the data has been gathered, the MIS conducts a quality review of the material.

2. In undertaking the quality review, the MIS ensures that the content is meaningful and thorough. The MIS also provides some drafting assistance to ensure that the content is a suitable for distribution. The MIS also calls on programme managers to request missing information, fill gaps and to check the accuracy of some data provided in IMDIS.

ii. Inspections are conducted ad hoc, at the prerogative of the OIOS Under-Secretary-General, whenever there are indications that a programme is not adequately managed or executed or resources are not being economically used. Due to resource constraints, there are approximately only 2 inspections carried out per year. Inspections entail interviewing the key stakeholders, reviewing documentation and performing site visits.